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Austria	Sch30	Indonesia	Rp3100	Pakistan	Rs35
Bahrain	Din0.900	Iran	Rls210	Philippines	Peso40
Belgium	BFr60	Israel	Shk4.30	Poland	Zl 15,000
Cyprus	CC1.00	Italy	L2200	Portugal	Es175
Czech	Kcs35	Jordan	JD1.20	Qatar	QR10.00
Denmark	DKr15	Korea	Won 2000	S.Arabia	SR8.00
Egypt	E£2.50	Kuwait	Fils.500	Singapore	S$4.10
Finland	FM10	Lebanon	L£1,000	Spain	Pta175
France	FFr8.00	Lux	LFr60	Sweden	SKr15
Germany	DM3.00	Morocco	MDh10	Switz	SFr2.70
Greece	Dr200	Neth.	Fl 3.50	Thailand	Bht50
Hungary	Ft145	Nigeria	Naira15	Tunisia	Din0.800
Iceland	IKr180	Norway	NKr13.00	Turkey	L5000
India	Rs20	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,595

Wednesday October 30 1991

D 8523A

ITALY
Unions take the road to reform
Page 3

World News

Britain and Vietnam sign deal to return boat people

Britain and Vietnam signed an agreement providing for the forcible return to Vietnam of tens of thousands of boat people from Hong Kong, except for the relatively small number classified as genuine political refugees. Page 6

Chernobyl will shut early
The Ukrainian parliament has voted to close the troubled Chernobyl nuclear reactor two years ahead of schedule. The decision follows mounting public pressure after a fire there earlier this month. Page 24

Emir to quench fire
The emir of Kuwait, Sheikh Jaber al-Sabah, will start the machinery to put out the last of Kuwait's 640 oil well fires at a ceremony next week. Page 24

Fresh attacks in Croatia
Several towns in the breakaway republic of Croatia came under renewed shelling from the Serb-dominated federal army, despite agreement on a ceasefire, Croatian radio reported. Page 3

40 die in India
At least 40 people have been killed in secessionist violence in India, 17 of them Kashmiri militants shot by security forces near a ceasefire line with Pakistan, the Press Trust of India (PTI) said. Meanwhile Indian police arrested former prime minister Vishwanath Pratap Singh and baton-charged his supporters to stop them confronting Hindu militants demanding possession of a ancient mosque. Page 6

Walesa urges unity
President Lech Walesa urged Poland's many political parties to forget their pre-election feuds and work together to create a government with wide powers. In elections at the weekend more than a dozen political groups won parliamentary seats, with none controlling much more than 12 per cent. Page 3

Amnesty claim
The human rights group Amnesty International is passing allegations of physical beatings and mental intimidation of terrorist suspects by the Royal Ulster Constabulary at Belfast's Castlereagh Holding Centre to the UN Committee Against Torture.

Typhoon claims 43
Typhoon Ruth killed at least 43 people in the Philippines and destroyed or flooded homes of 75,000 others before veering towards Taiwan, Red Cross officials said.

SA township inquiry
Judge Richard Goldstone, appointed last week by President FW de Klerk to investigate political conflict in South Africa, has named black lawyer Msakazi Sithole as chairman of the first inquiry into township warfare. It was the first appointment in South Africa of a black person to head an official inquiry into political violence.

Romanian election plan
Romanian Prime Minister Theodor Stolojan proposed holding Romania's first free local elections before the end of the year and a referendum on a new constitution now being drafted by parliament.

US sanctions increase
President George Bush increased US sanctions against Haiti, banning most trade between the two countries because of the military coup that ousted its elected president, Jean-Bertrand Aristide.

Chinese checker
Chinese challenger Xie Jun ended six decades of Soviet dominance over women's chess by defeating Soviet world titleholder Maya Chiburdanidze in a 16-game series for the crown in the Philippines.

Business Summary

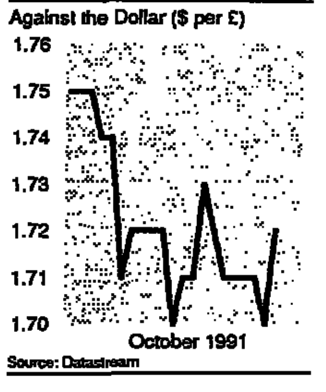
Brazil acts to protect levels of foreign exchange

Brazil's central bank suspended operations in the gold market to prevent foreign exchange reserves from falling to levels that could jeopardise payments on foreign debt and interest. Within 24 hours of the surprise move, the domestic price of gold surged more than 20 per cent. Page 24

SALOMON, Wall Street securities house facing millions of dollars in potential fines and court payments because of illegal activities in the US Treasury markets, made a provision of $200m on its third-quarter earnings to cover possible liability. Page 25

STERLING closed in London at its highest level against the dollar for a week after the Conference Board announced that

Sterling



its index of US consumer confidence had fallen to 60.6 in October from 72.9 in September, compared with expectations of 63-66. Currencies, Page 40

JAPAN'S index of leading economic indicators fell to 10.0 on a scale of 100 in August, below the "boom or bust" 50 mark, indicating that the economy is slowing. Page 6

BRITAIN is coming out of recession, Norman Lamont, the UK chancellor of the exchequer, said after an employers' organisation survey indicated a sharp rise in manufacturing confidence and the first signs in 21 months that production volumes may be about to improve. Page 24

EBRD, European Bank for Reconstruction and Development, may establish a new bank to finance trade from eastern Europe to the Soviet Union. Page 6

SMITHKLINE Beecham, UK pharmaceuticals group, posted profits for the third quarter up 16 per cent, by offsetting a fall in profits at its consumer products division with strong performances from its pharmaceutical and clinical laboratories operations. Page 25; Lex Page 24

TENNECO, Houston-based conglomerate, announced $504m of third-quarter pre-tax restructuring charges together with plans to raise up to $500m in preferred stock. Page 26

BRITISH Aerospace's rights issue woes dragged on as the company's financial advisers arranged to resell 12m shares at 23p below the price at which they had been offered to shareholders. Page 25

FUJITSU, Japanese electronics company, reported a 40.6 per cent fall in non-consolidated pre-tax profit for the first half to September because of the deteriorating semiconductor market. Page 26

SOUTH Korea: Foreign investment is rebounding after a two-year decline, according to the Finance Ministry which says the value of new projects totalled $1.26bn in the first nine months of 1990. Page 6

CHRYSLER, financially stretched US automobile company, has sold its 50 per cent stake in Diamond-Star Motors, a car assembly joint venture with Mitsubishi Motors, to the Japanese company for just under $100m. Page 26

Early rate cut expected as consumer confidence falls

US growth stalls after recovery

By **Michael Prowse** in Washington and **Patrick Harverson** in New York

SPECULATION grew on Wall Street yesterday that the US Federal Reserve would cut interest rates soon, after an unexpected plunge in consumer confidence and amid signs that growth began to stall at the end of the third quarter.

The Commerce Department said gross national product grew at an annual rate of 2.4 per cent in the third quarter – the first period of expansion since late summer last year and the best growth figure since President George Bush took office in January 1989.

Analysts said, however, the growth mainly reflected buoyancy at the beginning of the period and temporary factors such as a sharp slowdown in the rate of inventory liquidation by companies. Separate figures showed consumer confidence hovering close to recession levels, having registered its sharpest fall since Iraq invaded Kuwait last year.

Bond prices surged as fixed-income investors bought heavily in expectation that the Fed would ease policy shortly, probably by cutting the federal funds rate – the rate at which banks lend to each other – by a ¼ or ½ a percentage point.

This would reduce the Fed's

Wall Street looks to Fed for economic panacea......Page 8
Treasuries soar..........Page 28
Currencies..................Page 40

target for the Fed funds rate to 5 per cent or lower. The consensus, however, was that the Fed is unlikely to ease until after employment figures for October are released on Friday.

Many analysts also expect a cut from 5 per cent in the discount rate – at which the Fed lends to banks – in the next month. Speculation about lower US rates hit the dollar.

Mr Robert Mosbacher, commerce secretary, said a decision to ease would be "particularly appropriate since inflationary pressures are minimal if existent at all". GNP figures showed a broad measure of inflation at only 2.1 per cent in the third quarter.

Mr Mosbacher said the economy was "sluggishly moving forward" but the Bush administration would like to see faster growth. Earlier this week, Mr Alan Greenspan, the Fed chairman, seemed to pave the way for lower interest rates by noting the economy had turned

Continued on Page 24

Opening partnership: George Bush (left) and Mikhail Gorbachev convening the conference yesterday

Madrid peace delegates assemble

By **Victor Mallet, Hugh Carnegy, Tony Walker, Peter Bruce and Tom Burns in Madrid**

ARAB AND ISRAELI leaders yesterday adopted a conciliatory tone as they gathered in Madrid. The Middle East peace conference convened today by the US and the Soviet Union is an historic attempt to solve one of the world's longest and most destabilising conflicts.

As Presidents George Bush and Mikhail Gorbachev met in the Spanish capital – for the first time since the failed Soviet coup in August – Mr Yitzhak Shamir, the Israeli prime minister, pledged: "We have come here to make peace with our neighbours at long last." He added: "We only hope they will be ready to make peace with us."

Mrs Hanan Ashrawi, spokeswoman for the Palestinian representatives, said she was "pleasantly surprised to hear a new tone emerging from Israel".

A formal Palestinian statement criticised Jewish settlements in the Arab territories occupied by Israel since the 1967 Arab-Israeli war, but said: "We have come to Madrid to open doors. We have come to open up a new possibility for a just peace based on the resolutions of the United Nations and the will of the international community."

Jewish settlers from the Israeli-occupied West Bank said yesterday they intended to build a settlement on the spot where two Israelis were killed in a guerrilla ambush.

For the first time, all of Israel's neighbours have agreed to negotiate with the Jewish state. Syria, which refused to attend an earlier conference in Geneva in 1973, will be present, along with Lebanon, a joint Jordanian-Palestinian delegation, and Egypt, which made peace with Israel in 1979.

The Gulf and Maghreb states and the UN will have observers at the Royal Palace meeting; the European Community will also be represented.

Both Mr Bush and Mr Gorbachev sought to foster a conciliatory climate at a joint press conference by refusing to be drawn into statements about how the negotiations ought to proceed.

Mr Bush simply noted that the US-Soviet invitation mentioned UN resolutions 242 and 338, which call for Israel to withdraw from occupied territory in exchange for recognition and peace from the Arab world.

"We are not here to impose a settlement," Mr Bush said. "Let the parties work all this out . . . I don't want to give anybody any reason to walk away or make additional demands because of something that I have said."

Mr Gorbachev added: "Let's just open the conference, let's start working. It seems to me that the parties themselves can only win."

Israel yesterday dropped its objections to one member of the Palestinian delegation and

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Background, Page 4
Maybe the last chance, Page 22

UK rejects Dutch draft declaration on single currency

By **Ralph Atkins** and **Peter Norman** in London, **Quentin Peel** in Bonn and **Ian Davidson** in Paris

BRITAIN yesterday intensified the battle of nerves over European union by rejecting a declaration backing a single currency proposed for signing at the Maastricht European Community summit in December.

The UK dismissed as "irrelevant" the draft declaration put forward by the Dutch EC presidency on Monday. The idea was suggested as a means of maintaining momentum towards monetary union at the crucial summit.

Clearly risking a souring of relations with its EC partners, Downing Street insisted the accompanying declaration to be discussed at the summit was a side issue.

The declaration would not be legally binding and was "pretty irrelevant," said one senior official. "We are not cynical enough to put our names to something we disagree with."

However, the British government gave a qualified welcome to the substance of the Emu treaty which acceded to Britain's request for a let-out clause on committing itself to a single European currency.

The French and German governments gave only a cautious welcome yesterday to the proposals amid growing concerns that the draft treaty on economic and monetary union drawn up by the Dutch government would not be sufficient to paper over the cracks on the issue among EC partners.

Officials from the French government, which has been particularly eager for speedy moves to Emu, said they felt the Dutch draft treaty text was broadly pointing in the right direction. But they also indicated that the government might have reservations over the form of the special provision potentially exempting the UK from participating in the final, single currency phase of Emu.

French Finance Ministry experts suggested that the Dutch draft departed in a number of important details from what Paris had expected, including the institutional arrangements for handling external monetary policy, and said that France was likely to table a significant number of amendments.

In Bonn, a senior official sounded initially suspicious of the latest proposals, saying that the formula allowing Britain to opt out of the currency union was "very political – that is probably the most generalised way of putting it."

On Monday, Mr Wim Kok, the Dutch finance minister, said he would ask all EC governments, including the UK, to sign the declaration which expresses a "strong preference for a swift transition" to the final stages of economic and monetary union.

In London, the UK prime minister's office did not rule out Britain signing a modified declaration – for instance one which backed a single currency if "markets and people" so chose. But officials said little diplomatic effort would be deployed in seeking its modification.

Divided on monetary institute, Page 2
Editorial Comment, Page 22
Everything to play for, Page 23

Toshiba and Itoh put $1bn into Time Warner venture

By **Alan Friedman** in New York and **Robert Thomson** in Tokyo

TOSHIBA, the Japanese electronics company, and C. Itoh & Co. the trading house, are to pay $1bn for a 12.5 per cent stake in a new joint venture that will include the film and cable television operations of Time Warner, the debt-laden US media and entertainment group.

The US company will create a subsidiary, Time Warner Entertainment (TWE), comprising Warner Brothers, its Hollywood studio; Home Box Office, its cable television production unit; and Time Warner Cable, its cable system operations.

Time Warner, which earned $1.1bn from these three divisions in the first nine months of this year, will retain an 87.5 per cent stake in TWE, while the two Japanese companies will each take 6.25 per cent.

TWE, to be established in April 1992, has been valued at $20bn by the three partners, and includes $8bn of pro rata equity, $7bn of Time Warner debt, and about $5bn of preferred equity to be held solely

Lex..............................Page 24
Japanese pay $1bn for a star billing..........................Page 25

by the US company. Time Warner's publishing and music businesses will remain in the parent company.

Time Warner's share price on Wall Street firmed $2⅞ to $88⅞ at midsession.

Toshiba's investment continues the pattern of Japanese consumer electronics companies buying into US entertainment software, with Sony having paid $3.4bn for Columbia Pictures Entertainment and Matsushita Electric Industrial purchasing MCA for $6.1bn.

Time Warner and its two Japanese partners will also establish Time Warner Entertainment Japan, Time Warner taking 50 per cent and Toshiba and C. Itoh sharing equally the other half. It will manage Time Warner's existing television and film business in Japan and develop new products for the three companies.

Time Warner, which had $8.9bn of debt going into the deal, is expected to use the $1bn of proceeds to reduce its parent company debt, which will be left at $1.9bn after $7bn is transferred into TWE.

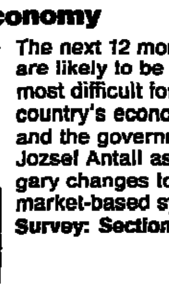
Time Warner acknowledged that its ultimate aim remains the securing of a European partner that will take a further shareholding in TWE, eventually bringing the US company's own stake down toward the 50 per cent level.

C. Itoh, which has been expanding its interests in the Japanese communications and television industries, and Time Warner began discussions in the summer of 1990. The trading house later introduced Toshiba to the negotiations.

C. Itoh and Toshiba said Time Warner would remain responsible for decisions on the content of film and television productions, although the three partners will create a board of representatives to advise on TWE's management.

CONTENTS

Hungary's troubled transition to a market economy



The next 12 months are likely to be the most difficult for the country's economy and the government of Jozsef Antall as Hungary changes to a market-based system
Survey: Section III

MARKETS

STERLING
New York:
$1.729 (1.694)
London:
$1.7225 (1.7035)
DM2.9125 (2.91)
FFr9.9375 (9.935)
SFr2.545 (2.5525)
Y225.25 (225.0)
£ Index 90.5 (90.3)

GOLD
New York: Comex Dec
$361.1 (360.80)
London:
$358.4 (359.0)

N SEA OIL (Argus)
Brent 15-day Dec
$21.725 (21.775)

Chief price changes yesterday: Page 24

DOLLAR
New York close
DM1.6865 (1.71785)
FFr5.758 (5.8605)
SFr1.47595 (1.5065)
Y130.65 (132.315)
London:
DM1.6905 (1.7090)
FFr5.77 (5.8325)
SFr1.4775 (1.4985)
Y130.75 (132.15)
$ index 84.7 (85.1)
Tokyo close: Y131.85

US closing rates
Fed Funds 5⅛% (5 3/16)
3-mo Treasury Bills:
yield: 5.01% (5.083)
Long Bond:
102½ (100 3/32)
yield: 7.9% (8.021)

STOCK INDICES
FT-SE 100:
2,553.3 (-5.2)
FT-SE Eurotrack 100:
1,099.96 (+2.92)
FT-A All-Share:
1,232.39 (−0.1%)
FT-A World Index:
147.65 (+1.0)
New York close
DJ Ind. Av.
3,061.94 (+16.32)
S&P Comp
391.48 (+1.96)
Tokyo: Nikkei
25,140.61 (+238.89)

LONDON MONEY
3-month interbank:
10½% (10 9/16%)
Liffe long gilt future:
95⅜ (94¾)

G7 threat crucial in Soviet debt agreement

By Leyla Boulton in Moscow

THE Group of Seven leading industrial countries have warned the 12 remaining Soviet republics that new credits from the west would be cut off if they did not agree to honour debts incurred by the old Soviet Union.

The warning played a key role in persuading the republics on Monday night to agree collectively to repay existing Soviet foreign debt. As a result of that agreement, the G7 is preparing to put in place its planned safety net against any possible default on Soviet debt repayments.

"Now we are going to quickly put into place a certain number of arrangements to prevent them from getting into a situation where they stop paying," said one western official yesterday. The G7 is ill-equipped to assess the urgency of Soviet claims of dangers ahead, but the debt memorandum enables it to undertake the necessary financial preparations for a safety net.

Western officials yesterday rejected suggestions that the agreement could collapse if the three newly-independent Baltic states refused to endorse it, as demanded by Ukraine.

Mr Vitold Fokin, Ukrainian prime minister, said on Monday his republic would withdraw its signature if the Balts were let off the debt hook. Western officials referred to previous assurances by the Balts that they would take part in repaying the Soviet debt, and also stressed that Ukraine would suffer if it withdrew from the agreement. Mr David Mulford, US Treasury under-secretary, who played a very active role in spelling out these dangers, said yesterday: "I am going away reassured about their intention to stand behind their debt." He skirted the question whether outside assistance would be needed to help them meet their commitments this year. Instead, he stressed that "this is a country which is current on its payments".

The document commits the republics to "jointly and severally" assume responsibility for the foreign debt, which hovers around $60bn. This formula of "jointly and severally" means that if one republic cannot pay, the others undertake to cover for it.

The memorandum also empowers a single debt manager – defined as Vneshekonombank, the bank which at present services the debt, or any successor organisation – to handle debt payments and servicing negotiations with foreign partners. The republics also undertake to provide it with the hard currency to carry out its obligations.

In return Vneshekonombank will undertake an inventory of the debt, and all-union authorities promise to provide republics with full information on Soviet assets and liabilities.

Next week, republican representatives plan to meet in Kiev to discuss ways of dividing up both. But some western diplomats doubt the republics will be able to increase hard currency payments even if they want to. The money is earned and diverted from the state coffers largely by enterprises, not by republican authorities.

Before the memorandum was finally agreed on Monday, republican representatives and G7 deputy finance ministers were told Vneshekonombank could be forced to default on payments within a week unless foreign currency flows began to pick up. The warning provoked a mixed response: the Germans expressed scepticism, and the US called for action to haul in hard currency from republics and enterprises to service the debt.

To Russia with Funds, Page 14

Mr Ruslan Khasbulatov, elected yesterday as chairman of the Russian Supreme Soviet, has a quiet word on the phone in parliament under the gaze of Russian President Boris Yeltsin who announced a radical reform programme on Monday.

Russians wrangle over cabinet

By John Lloyd in Moscow

WRANGLING over the composition of the Russian cabinet is delaying announcement of a government which will have the task of implementing the programme of radical reform announced by Mr Boris Yeltsin, the Russian president, on Monday. Different cabinet structures are discussed on an almost daily basis – though an announcement is expected soon.

However, it now seems certain that the minister in charge of the economy will be Mr Egor Gaidar, head of the National Management Institute at the Academy of the National Economy and a radical voice in the economic debate. In one possible version of the cabinet, Mr Gaidar would take over the economy and finance portfolios and function in effect as deputy to Mr Yeltsin.

Mr Gaidar is likely to enter the cabinet with a team of economic radicals from Moscow and St Petersburg, mostly in their 30s or early 40s, who share common views on economic reform, the bulk of whom will be in government for the first time.

Mr Alexander Shokhin, the Russian labour minister, will be another crucial member of the team, and may see his portfolio expanded to include all social affairs.

The economic ministers will be united in their belief that Russia must "go it alone" with an economic programme tailored to Russian needs, developing relations with other former Soviet republics which are little different from those with foreign states. In his speech on Monday, Mr Yeltsin told the other republics that they must decide at once whether or not they wished to co-operate with Russia on economic reform – though this is seen by his economic advisers as merely a ritual.

One said yesterday that "the president had to be seen to make this offer, but no-one believes it will have much effect on most of the republics".

The Russian cabinet is expected to be smaller than the present government, and much smaller than the 60-70 ministers which have been the norm for the Soviet cabinet. Mr Andrei Kozhyrev, the Russian foreign minister, told diplomats yesterday that the cabinet would have no more than 20 members.

The team of academic advisers, under Mr Gaidar's direction, is currently working on a series of presidential decrees on the economy – including decrees on liberalising prices, on curbing the budget deficit and on opening the economy to foreign investment. But no precise date has been set for the much-feared prices rises – which Mr Yeltsin said would be put into effect before the end of the year.

New hurdle emerges in negotiations on European economic and currency union

EC bankers at odds over monetary institute

By Peter Norman, Economics Correspondent

DIVISION among European Community member states on the constitution of the proposed European Monetary Institute has emerged as a hurdle in negotiations on economic and monetary union.

At a meeting in Basle on Monday, EC central bankers failed to reach full agreement on the EMI statutes and so uncovered deep-seated differences over the institutional approach towards Emu among member states which could jeopardise plans for the eventual creation of an independent European central bank.

Both the draft Emu treaty, published on Monday night, and the protocol detailing the statutes of the EMI testify to the differences by carrying passages in square brackets which have yet to be agreed. These concern proposals for the appointment of an EMI president and vice president, and contain a provision for these officials to be nominated by EC governments.

According to European monetary officials, the differences among the central banks reflect deeper problems than simple personnel issues. They said France, backed by Italy, Spain, Greece and Portugal, is pushing for the EMI to be a clearly defined EC institution and be headed by officials from outside the group of central bank governors, so that it might develop the characteristics of an embryo European central bank in stage two of Emu. This is the transitional period when responsibility for monetary policy is supposed to remain vested with national authorities.

However, the Bundesbank, backed by the Bank of England, wants the EMI to be no more than an extension of the existing committee of EC central bank governors and to confine its activities to promoting monetary co-operation, the development of the Ecu and co-ordination of national policies among the Twelve's monetary authorities.

The Bank of England holds to the UK government view that monetary policies in stage two should be a national responsibility.

The Bundesbank is deeply suspicious of any supranational body being set up in stage two at a time when some member central banks will not be independent. It fears a political compromise in the event of a delay in moving to the full stage three of Emu and that such a delay would defer plans for a European central bank with the same high degree of independence as the Bundesbank. It is worried that the EC could instead opt for an EMI that might be subservient to national governments.

The confusion surrounding the EMI intensified yesterday after it became apparent that the Dutch government had not released the final draft EMI statutes in the form agreed by the central bank governors on Monday, but an earlier version.

Close reading of the protocol on the EMI released by the Dutch finance ministry also suggested that some paragraphs had been excluded from the EMI draft statutes. There is, for example, a reference to an "article 10.5" but no sign of this article in the EMI text as published.

Endgame with everything still to play for, Page 23

Bond market backs freezing of Ecu basket

By Simon London

THE Dutch proposal that EC governments should agree to freeze the current composition of the Ecu from 1994 won wide support from bond market participants yesterday.

The bond market is the only area of finance in which the Ecu is firmly established. So far this year companies, governments and supra-national agencies have issued $23bn equivalent Ecu bonds, making it the second most popular currency after the US dollar.

The Dutch plan was welcomed by many bond market analysts. Mr Jim O'Neill, head of research at Swiss Bank Corporation, commented: "This has to be a bullish development for the Ecu bond market. My only reservation is that we may have to wait until 1994 for the basket to be frozen."

He argued that companies were unlikely to use the Ecu more widely in other areas of corporate finance until the Ecu basket was actually frozen and companies could be sure of the currency's future composition.

Investors also welcomed the Dutch proposals. Ecu bond prices rose by around ½ point during the day, the largest one-day rise since the summer.

Ecu bond prices have fluctuated widely in recent weeks amid uncertainty about the future shape of the single European currency. For example, during the summer, Ecu bond prices rallied in expectation of a "hardening" of the currency, rather than the freezing now proposed by the Dutch.

A hard Ecu would not be allowed to devalue against any of its component currencies. Such a move would ensure that Ecu bond yields fell to the lowest levels in Europe, since the Ecu would be the hardest currency.

Ecu bond prices fell sharply this month as it became clear that few EC governments would back the hard Ecu proposals.

However, not all bond market participants backed the proposals for a hard Ecu. The UK Bond Commission, which counts many leading international securities firms among its members, has called for a freezing of the Ecu, as now proposed by the Dutch.

It argued that plans to "harden" the Ecu would confuse the market, make it difficult to establish forward Ecu rates and "lead to a loss of confidence in the day to day valuation of the Ecu".

EC takes softer line on energy monopolies

By Andrew Hill in Luxembourg

THE EUROPEAN Commission yesterday ruled out immediate use of special legal powers to break up energy production monopolies and outlined plans to EC ministers for gradual opening of the energy market.

The energy ministers – some still with strong reservations about such plans – asked the Commission to come up with formal draft measures by the end of this year.

It is now clear the energy market will not be completely open to competition – with most consumers able to buy power from any EC supplier – until 1996 at the earliest.

Under the Commission's softly-softly strategy, some large industrial users would gain access to the gas and electricity networks in time for the opening of the internal market at the beginning of 1993. Member states would retain almost all their supervisory powers over the sector.

But Mr Antonio Cardoso e Cunha, the energy commissioner, said details of the final step to full energy liberalisation – from 1996 on – would depend on "the evolution of the [penultimate] phase" of the programme.

Sir Leon Brittan, the competition commissioner, wants to break up gas and electricity production monopolies using article 90 of the Treaty of Rome. This allows Brussels to enforce competition in the public sector without approval of member states. A spokesman said yesterday Sir Leon still saw use of such legal instruments in the energy sector as a necessity. But Mr Cardoso e Cunha said: "At the moment the Commission has no intention of issuing actions under article 90."

The more cautious approach partly reflects Brussels' desire not to upset member states with controversial proposals in the run-up to next month's Maastricht summit.

Mr Cardoso e Cunha will now tour all 12 member states talking to ministers individually.

● EC energy ministers said yesterday Commission plans to limit carbon dioxide emissions would have to be matched by similar action from countries outside the EC. They voiced doubts about the detailed plans, which include an energy tax, but agreed to set up a working group of energy, environment and fiscal experts.

UK plays down its delight over Emu

By Ralph Atkins and Philip Stephens

BRITISH ministers' delight at the progress on European monetary union was tightly controlled in Whitehall yesterday, amid fears of prejudicing gains made and sober assessments of the difficulties ahead on political union.

Downing Street revealed that a cabinet committee meeting on Monday afternoon, called to discuss Britain's negotiating tactics for political union, had lasted almost three hours.

Its importance was such that Mr Douglas Hurd, foreign secretary, had stayed in London, instead of meeting other EC foreign ministers in Brussels.

Mr John Major used the opportunity to sound out ministerial colleagues with departmental experience in Europe on possible strategies before December's Maastricht summit and areas where European Community competences could reasonably be extended.

The official response to the Dutch draft treaty on economic and monetary union was limited to welcoming the progress that had been made – specifically in recognising Britain's opposition to the imposition of a single currency – but insisting there was still much work to be done.

Mr Norman Lamont, chancellor of the exchequer, told the cabinet that the draft was a basis for negotiations.

Triumphalism appeared to be deliberately eschewed. Admitting Britain had won substantial concessions could prompt other EC countries to make Britain give something in return. Throughout, officials and ministers have deliberately kept Britain's negotiating hand close to their chests.

Privately, however, the prime minister and the Foreign Office regard the latest version as vindicating the government's tactics so far.

The immediate effect has to be dissipate some of the anger among Euro-sceptics within the Conservative party – although there is a recognition within Downing Street that battles remain to be fought.

Mr William Cash, chairman of the Conservative backbench Committee on Europe, was less than enthusiastic about the compromise. A leading sceptic about further European integration, Mr Cash said he applauded Mr Major's determination to ensure Britain could opt out of a single currency.

He added, however, that he would be "gravely concerned" if Mr Major signed an accord which committed Britain to the principle of monetary union.

From an opposing perspective Mr Ian Taylor, Tory MP for Esher, declared that the latest Dutch draft was a clear victory for the prime minister, demonstrating that "we can be at the heart of Europe while leaving it to a future parliament to take the final decision on a single currency".

William Cash: less than enthusiastic

France may give Moscow food credit

FRANCE might announce a food credit for the Soviet Union at a Franco-Soviet summit today, a French government official said yesterday, Reuter reports from Paris.

President Mikhail Gorbachev will meet President François Mitterrand in south-west France on his way back from the opening of the Middle East peace conference in Madrid.

France has delayed granting credit to Moscow, saying it wanted to co-ordinate the move with EC aid. The EC has offered Moscow an Ecu1.7bn ($2bn) credit to buy food.

Nancy Dunne adds from Washington: Mr Edward Madigan, the US agriculture secretary, said yesterday that President Bush had agreed to recommendations by his department about US food aid for the Soviet Union. The package would include grants or long-term loans for food.

The Financial Times (Europe) Ltd
Published by The Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1; Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: DVM GmbH-Hürriyet International, 6078 Neu-Isenberg 4, Frankfurt. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1991.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: J. Rolley, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

EUROPEAN NEWS

German engineering hit as SKF sheds jobs

By Christopher Parkes in Bonn

MORE signs of the mounting squeeze on the German engineering industry emerged yesterday as SKF, the bearings manufacturer, announced 750 job losses and a 20 per cent reduction in output, while the VDMA, the industry association, reported an 8 per cent drop in plant and machinery orders over the past three months.

The German plant of SKF, the Swedish group which is Europe's largest bearings manufacturer, employs 5,600 in Schweinfurt, Bavaria. The company said it expected to make an operating loss this year following a heavy fall in demand and sales and a DM35m (£12m) rise in wage costs. It had not been possible to increase prices, the company added.

Cost saving measures, short-time working and early retirement, introduced in the middle of last year, had been insufficient to offset the effects of the downturn.

In the engineering industry at large, according to the VDMA, overseas orders fell 11 per cent in September, while domestic demand increased by only 1 per cent. Aggregate order books were 5 per cent down on September, 1990. For the three months to the end of September, export orders were 13 per cent lower than in the comparable period last year, and domestic demand fell 4 per cent – an overall fall of 8 per cent.

Industry generally, though, remains bullish. The annual autumn poll of western German companies by the national chamber of trade and industry, DIHT, showed that 90 per cent rated the condition of their businesses as "good" or better, although 22 per cent expected the situation to worsen next year.

Few expected any increase in overseas business, but even so, a majority expected domestic demand to remain relatively high.

There was good news, however, from the government statistics office, which announced a further fall in inflation to 3.5 per cent in October, and from an autumn survey of 20,000 companies, which showed that industrial confidence remains high.

The German economic locomotive will keep going in 1992, said DIHT head Mr Franz Schoser. Even allowing for a weaker growth rate in the west, economic growth of 3 per cent for the united Germany could not be ruled out, he added.

Croats say towns under new attack

By Judy Dempsey, East Europe Correspondent

SEVERAL towns in the breakaway republic of Croatia yesterday came under renewed shelling from the Serb-dominated federal army, despite agreement on a ceasefire, Croatian radio reported.

The attacks on the towns of Vukovar and Vinkovci which are situated in Slavonia, eastern Croatia, and Karlovac, in the south of the republic, coincided with remarks made by a senior Serb official calling for an end to the European Community-sponsored peace talks.

Mr Vladislav Veizovic, the deputy foreign minister of Serbia, in an interview with a Dutch radio station, criticised the EC ultimatum issued earlier this week. That threatened "restrictive" sanctions on Serbia or those other republics which did not accept the EC peace agreement. Sanctions are expected to be applied after November 6.

Mr Veizovic also said that Serbia, or the federal army, had no intention of trying to destroy Dubrovnik, on Croatia's Adriatic coast.

He went as far as to claim that Croatian fighters "might be ready to destroy even that nice, beautiful city", with the aim of tarnishing the army's reputation.

In Dubrovnik itself, the city's 50,000 inhabitants remain without food, water, electricity and gas supplies. However, after a thorough inspection, a ship bringing supplies into the city was allowed through a federal blockade.

Two sides dig in over European defence

By Quentin Peel in Bonn

PLANS for a common European defence policy emerged yesterday as a serious potential stumbling-block in the path of negotiations on European political union, after ministers failed to resolve differences over the future relationship between Nato and the European Community.

An inconclusive meeting of all the foreign and defence ministers of the nine-nation Western European Union (WEU) left a clear divide between France, Germany and Spain, on the one hand, and Britain, Italy and the Netherlands, on the other, over a future "European defence identity".

In particular, France made clear it was not ready to negotiate a precise definition of the WEU's future role before the EC summit in Maastricht in December. Britain warned that without such a definition, any substantial agreement on defence at the summit was unlikely.

Both sides did agree, though, that they want a clear European defence identity, that it should be influenced by the structures of European political union (under the EC) as well as Nato, and that a multinational force could be established at least for "out-of-area" activities. They disagree on activities within the Nato area, and on the possible duplication of the Nato role.

"We don't want the WEU to be subordinate to political union. We accept that it will have links both with European political union and with Nato," said Mr Douglas Hurd, British foreign secretary.

Mr Roland Dumas, his French counterpart, stressed the French view that while Nato remained "the most important instrument for security in Europe, this does not prevent Europeans from thinking about their security in Europe and for Europe". A European defence identity meant "the defence of Europe by Europeans".

Mr Hurd said it was essential to "preserve the Atlantic alliance in a form which retained the integrated command structure and the presence of the US and Canadian forces (in Europe)". It was also essential to define the role of the WEU and the "Atlantic link" in advance of the EC summit.

The whole defence debate will now be continued both within the inter-governmental conference preparing for Maastricht, and within the WEU, whose ministers meet again on November 18.

Walesa urges continuation of reforms

By Christopher Bobinski in Warsaw

PRESIDENT Lech Walesa yesterday called on Poland's many political parties to forget their pre-election feuds and to work together to create a government with wide powers.

The new government should be given at least two years to continue economic reforms and protecting "what has been achieved already".

Mr Walesa's appeal follows elections at the weekend in which more than a dozen parties won parliamentary seats, with none controlling much more than 12 per cent.

The next government must press ahead with a far-reaching privatisation programme while trying to limit Poland's recession and create jobs for the unemployed, Mr Walesa said. However, he made no reference to any possible inflationary effects the measures might have. This suggests he is looking to the right wing parties – which have criticised the outgoing government for doing too little about the recession – to throw its weight behind the next government.

President Walesa appears ready to countenance an attempt to form a government based on a coalition of the five parties backed by the Catholic Church in the election. These include the Centre Agreement party which favours asking Mr Jan Winiecki, an economist with the European Bank for Reconstruction and Development in London, to take charge of the economy.

The Catholic church can be expected to play an active behind-the-scenes role in forming the next government.

Should the five church-backed groups win the support of the PSL farmers' party with promises of protectionist agricultural policies as well as the Solidarity trade union and the fiercely anti-communist KPN party then they would have almost half the seats in the Sejm, the more important lower chamber.

President Walesa said the next government should bring to trial those "guilty of crimes" a reference to corruption among the former communist elite as well as the new Solidarity establishment.

Italian union goes with the flow

By Robert Graham in Rome

ONE further vestige of Marxism and the cold war was buried last week at Rimini, on the shores of the Adriatic.

After five days of noisy and, occasionally, tense debate, delegates at the 12th congress of the CGIL, Italy's largest union confederation, voted overwhelmingly to adopt a new identity. The deeply-imbued ideal of a disciplined vanguard leading the working-class struggle towards a socialist millenium was cast aside.

In its place is a reformist movement trying to catch up with the political and economic changes sweeping Europe. "We have taken the turn; the new CGIL is already in place," said Mr Bruno Trentin, secretary-general.

The change in the 5.1m-member confederation was epitomised by the way in which the contrasting figures of Mr Trentin and his deputy, Mr Ottavino del Turco, found common cause. Both have spent their lives in the union movement. But Mr Trentin, 64, trained as a lawyer and became involved in the CGIL as a Marxist intellectual.

He has been an outspoken opponent of the market economy and his conversion to the union's reformist role has come about with the collapse of communism.

In contrast, the 47-year-old Mr del Turco rose through the ranks espousing a moderate socialism. He saw that the prosperity of the 1980s boom had eroded the old confrontational approach between management and labour and in the past three years won over nearly a third of the members to his "reformist" platform.

When the split in the once-monolithic Italian Communist party was formalised in early February, Mr del Turco emerged as the power-broker between the two Communist factions inside the CGIL. The majority faction, led by Mr Trentin, comprised those who had moved into the ideological limbo of "ex-communism", while the minority consisted of hardliners who still believed in the old faith.

"The new CGIL will play a more relaxed role, less conflictive and more co-operative; and this can only benefit the labour movement," Mr del Turco said after the congress.

Such a change of culture is unlikely to be immediate. The strike has become an almost visceral reflex in Italy, as witnessed by the October 22 general strike directed against the 1992 budget and modest proposals to increase national health subscription charges.

The CGIL has been a decisive force in establishing the formidable bargaining power of the union movement in post-war Italy. Its leaders relied on strict discipline, a nationwide capacity to mobilise and the political support of the Communist party, to which the bulk of its members owed allegiance.

It dwarfed the two other confederations, the Christian Democrat CISL and the Social Democrat/Republican UIL. The latter were essentially products of the cold war, designed to counter the weight of perceived Communist control over the working-class – although all three made common cause.

The metamorphosis of the CGIL and the collapse of communism thus remove the rationale behind the existence of the three confederations, separated by political divisions.

Mr del Turco acknowledged this when he told the congress he was dissolving his own Socialist grouping inside the CGIL. The path towards uniting the three is now mainly constrained by practical considerations. Not least, the confederations have converted themselves into vast corporate institutions increasingly removed from the workplace.

Nevertheless, positions are already co-ordinated on the controversial issue of wage-indexation and labour costs in talks with the government and employers. Equally important, they have to demonstrate they can still represent their members in the union movement.

In the past five years, a growing number of workers in strategic sectors have formed unofficial unions and taken industrial action to pursue separate wage claims. This side-stepping of the confederations has been highlighted by a rash of recent strikes in aviation and the railways.

The unofficial unions have exploited the anachronistic practice of the three confederations who insist on negotiating broad sectoral contracts with across-the-board wage increases that take little account of special skills. The CGIL congress implicitly recognised in future there would be more individual initiative at the company, factory and regional level.

Hardliners in the CGIL from the rump of the dissolved Communist party fought hard at Rimini to retain the role of a vanguard movement leading the class struggle. Representing 15 per cent of the congress, they threatened a split similar to that which had occurred earlier in the Communist party. Largely thanks to Mr Trentin's powers of persuasion they were kept on board.

Such success in keeping the left together under one umbrella raises intriguing questions about the future role of Mr Trentin and the CGIL as a political bridge-builder on the left. The presence at Rimini of Mr Achille Occhetto, leader of the Party of the Democratic Left, which has attracted the mainstream former Communists, and Mr Bettino Craxi, the Socialist leader, was suggestive. They treated each other like two cautious animals sniffing the air. Mr Trentin, puffing his familiar pipe, looked on in the role of an approving ringmaster.


Bruno Trentin: change of course for CGIL

MIDDLE EAST PEACE CONFERENCE

Israeli mother grieves for her son, who was killed on Monday

US strives to end long years of anguish

Tony Walker examines a quarter of a century of US attempts to engineer a Middle East settlement

LIKE abandoned weapons of war rusting in the desert, Middle East peace plans have arrived and been overtaken with each succeeding American administration.

Since President Dwight Eisenhower intervened in 1956 to halt the tripartite aggression by Britain, France and Israel against Egypt for control of the Suez Canal, America has become deeply enmeshed in the region; and with the Soviet retreat from expensive regional commitments, the US has now emerged virtually unchallenged as the supreme Middle East player.

Emboldened by its success in forcing Iraq's withdrawal from Kuwait, the US has mounted perhaps the most determined attempt to resolve the vexed Arab-Israel conflict since the proclamation of the Jewish state in 1948.

President George Bush and his secretary of state, Mr James Baker, on the threshold of an American era in the Middle East, would hardly need reminding of the patchy record of their predecessors. Indeed, Mr Bush showed he was well aware of the difficulties when he spoke at the weekend of the "enormous differences" between the two sides.

American involvement in the Middle East had, until 1956, been dictated largely by commercial interests, notably the activities of US oil companies in the Gulf led by Standard Oil of California (Socal) and Texas Company (Texaco). These combined to form Caltex, later the Arabian American Oil company (Aramco), to explore and develop Saudi Arabia's reserves.

The Suez crisis changed American perceptions, however, and the Eisenhower doctrine of support for states opposing "international communism" provided an early catalyst for a deepening US involvement in Middle Eastern affairs, and more particularly in an evolving strategic partnership with Israel.

With the overthrow of Iraq's pro-western monarchy in 1958 and with Egypt, which had turned increasingly to the Soviet Union for support after Suez, viewed suspiciously through a cold war prism, the US nudged ever closer to Israel, providing cash, offensive weapons and other forms of assistance.

By the eve of the 1967 Six Day War, the outlines of what has at times proved a troubled strategic partnership were well-defined. American military, diplomatic and economic support had become crucial to Israel's survival.

The year 1967 also marked the beginning of an over-ambitious series of American peace stratagems aimed at resolving the Middle East conflict. A common denominator in all these US efforts was United Nations Security Council Resolution 242 of November 1967.

The key provision in this much-debated UN resolution called for the "withdrawal of Israel's armed forces from territories occupied in the recent conflict." The absence in the English version of the definite article in reference to territories has led to endless debates, and is certain to be the cause of further disagreement.

The Arabs insist that Resolution 242 and its companion Resolution 338 passed after the 1973 war require an Israeli withdrawal from all land occupied in the 1967 and 1973 conflicts. On the other hand, Israel, until the advent of nationalist governments in the late 1970s which were adamantly opposed to territorial compromise, had always maintained that the UN resolutions allowed a selective withdrawal.

In this latest peace effort, Mr Baker has shown that he has learnt from the mistakes of his predecessors who had invariably sought a common understanding of the meaning of Resolution 242.

Mr Baker finessed the issue simply by noting that there are differing interpretations of the UN resolution, while emphasising the US view that 242 and 338 clearly require an Israeli withdrawal from Arab land in exchange for peace.

The second key element of Resolution 242 calls for the "termination of all claims or states of belligerency and respect for the acknowledgement of the sovereign territorial integrity and political independence of every state in the area and their right to live in peace within secure and recognised boundaries free from threats or acts of force." Acceptance of this element has always been interpreted as an acknowledgement of Israel's right to exist behind secure pre-1967 war frontiers. The Palestinians could not bring themselves specifically to endorse the UN resolution until Mr Yassir Arafat, the Palestine Liberation Organisation Chairman, did so in Geneva in 1988.

Armed with Resolution 242, US secretaries of state from Mr William Rogers, who served in the Nixon administration, to Mr Baker's predecessor, Mr George Shultz, sallied forth in the vain hope that Arabs and Jews could be persuaded to sit down and talk.

Two Rogers plans – the first advanced in 1969 and a "re-launched" version in 1970 – a Reagan plan and a Shultz plan, among many others, have been advanced since the Six Day War to little avail. Mr Rogers attracted the support of Egypt's President Gamal Abdel Nasser and the conditional backing of Israel, but other parties including the Palestinians rejected his plan outright.

President Ronald Reagan fared little better when he advanced his peace plan in September 1982 hard on the heels of Israel's war against the PLO in Lebanon. Mr Menachem Begin, then Israeli prime minister, dismissed the Reagan plan which envisaged a process of autonomy and self government for Palestinians in the occupied West Bank and Gaza Strip; and as if further to emphasise this rejection, Israel embarked on an accelerated settlement drive in the territories.

The Shultz plan of February 1988, coinciding as it did with a Palestinian uprising against Israeli rule, was perhaps the limpest US effort of all. Mr Shultz made several desultory attempts to interest Arab states and Israel in his plan which followed the outlines of the Reagan autonomy proposal of 1982; but his efforts were not taken seriously and were regarded by the Arabs as an attempt to take the heat off Israel.

The Arabs themselves engaged in stuttering attempts during the 1980s to end the dispute with Israel. Most prominent was that of Saudi Arabia's Crown Prince Fahd who in 1981 unveiled the eight-point "Fahd Plan" which included a provision implicitly recognising Israel's right to exist in exchange for withdrawal from Arab land along the lines of Resolution 242.

The Fahd plan was adopted at an Arab League summit in Fez in late 1982, but did not provide the basis for renewed peace efforts. The 1980s also witnessed several faltering attempts by King Hussein of Jordan, in partnership with Mr Arafat, to come up with a workable plan to advance Middle East peace.

Among all US diplomatic efforts in the Middle East in more than 40 years, the most tangible success came with the Camp David process of 1978 which led to the peace treaty between Israel and Egypt and Israel's subsequent withdrawal from nearly all of the Sinai; but this controversial agreement was also subject to ferocious criticism from Arab states, led by Syria, who believed that Egypt, by making a separate peace with Israel, undermined prospects of a comprehensive settlement involving all the occupied territories, including the Syrian Golan Heights.

The Camp David framework, which provided for a "two-stage" solution to the Palestinian problem, mirrors the proposals now being advanced by Mr Baker.

In essence, Camp David envisaged a five-year transitional process of self-government and autonomy for the Palestinians in West Bank and Gaza Strip including negotiations on the "final status" of the territories and Palestinian "legitimate rights". This process, using as its reference Resolution 242, would in the US view have helped to build confidence between Israel and Palestinians as Israeli military forces gradually pulled back from urban centres and allowed the Palestinians to get on with the business of administering themselves.

At the same time negotiations would proceed on the shape of an eventual Palestinian "autonomous region" in the West Bank and Gaza. That was the theory. Israel, however, bitterly opposes any process that might lead to Palestinian self-determination, hence its deep suspicion of steps toward a recognition of Palestinian "political rights" – the code phrase now being used by the Americans.

The US, in its efforts to inveigle Israel into a renewed peace drive, has repeated its opposition to the creation of a Palestinian state in the West Bank and Gaza. But Israel fears this is not an absolute commitment, and worries that if it makes concessions it will come under increasing pressure to agree to the establishment of a Palestinian entity on its pre-1967 borders.

Three Israeli soldiers killed in bomb blast

THREE Israeli soldiers were killed by a bomb blast in south Lebanon yesterday, Reuter reports from Jerusalem.

The Israeli army said five of its soldiers were wounded and two Arab guerrillas killed in a separate, pre-dawn clash.

The blast occurred at 10 am near the village of Aramta, in the anti-guerrilla buffer zone which Israel and its local allies control across south Lebanon.

"Three Israeli soldiers were killed and one injured lightly in a bomb blast near an army force in the eastern sector of the security zone in south Lebanon on Tuesday," the army said.

Meanwhile, a PLO radical group which has disowned the Palestinian decision to attend the peace talks said it was responsible for an ambush on Monday in the Israeli-occupied West Bank in which two Jews were killed. The Damascus-based Popular Front for the Liberation of Palestine statement contradicted a claim of responsibility for the ambush by the Moslem fundamentalist group Hezbollah-Palestine.

● Gunmen fired a rocket-propelled grenade at the US embassy north of Beirut yesterday, Reuter reports from Beirut. There were no casualties in the attack on the fortress-like embassy.

Arabs and Israelis lock horns in 'peace battle'

By Victor Mallet in Madrid

THE SYRIAN newspaper al-Baath was utterly in keeping with the confrontational mood of today's Middle East conference when it described the proceedings as a "peace battle".

Several battles will already have been fought by the time *Arabs and Israelis* are due to cross swords on matters of substance such as Palestinian rights, the Israeli occupation of Arab land and the refusal of Arab states – except Egypt – to recognise Israel.

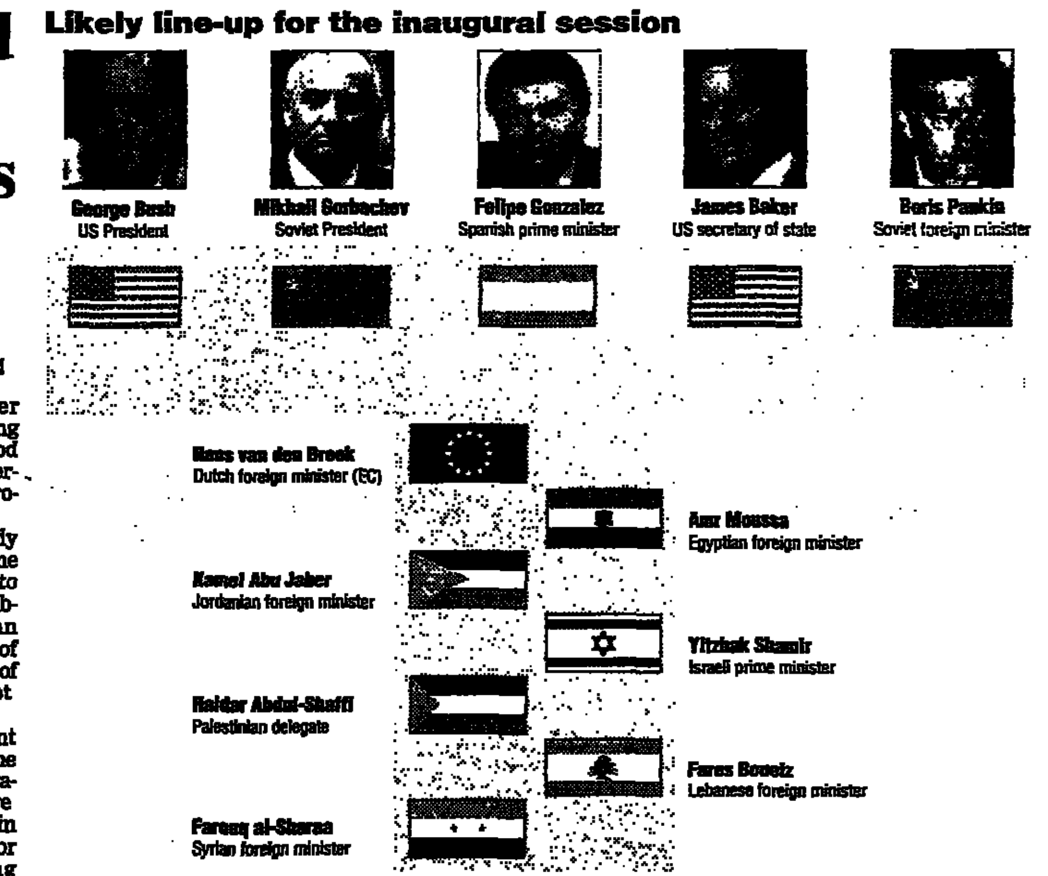
The first and most important procedural battle was over the make-up of the various delegations. Israel took the initiative – as it always prefers to do in warfare, whether military or diplomatic – by demanding that residents of Arab east Jerusalem and members of the Palestine Liberation Organisation be excluded from the joint Jordanian-Palestinian delegation.

Succumbing to these demands, the Palestinians nevertheless fought a successful rearguard action. They appointed a team of first seven *and then 14 advisers (including* PLO supporters and Jerusalem residents) to guide their delegates, declaring all the while that their representatives backed the PLO, in the sense that all Palestinians were supposed to look to the PLO for leadership.

Only Mr Saeb Erekat went too far and told the truth, saying bluntly that the group "was chosen by the PLO" and prompting an Israeli threat to walk out. He had to be over-ruled by his more diplomatic colleagues, Mr Faisal Husseini and Mrs Hanan Ashrawi.

Israel has won other small *battles too. Amid chaotic* last-minute preparations, it endeared itself to the press in Madrid by producing a list of all the delegations, including those of its enemies, complete with hotels and telephone numbers.

Likely line-up for the inaugural session



The Israelis, fearing the emblem of the state the Palestinians want but do not yet have, also seem to have won their fight against the use of flags during the conference.

Israel's delegation is notable for its hardline views. Although the US-Soviet invitation said the conference would be at ministerial level, Mr Yit*zhak Shamir, Israel's prime* minister, decided to come himself rather than risk any doveishness from Mr David Levy, his foreign minister.

Egypt has chosen representatives known for their pro-Palestinian sympathies, although Egypt already has a peace treaty with Israel. It goes without saying that the delegation from the monolithic Syrian establishment is unlikely to treat Israel with kid gloves.

After opening addresses from Presidents George Bush and Mikhail Gorbachev today, the Middle East delegations will glower at each other *across a T-shaped table in the* palace (beneath the watchful eyes of the American and Soviet foreign ministers at the top of the 'T') and take it in turns to make formal speeches until *Friday morning; to the* annoyance of the Israelis the Jordanian-Palestinian delegation will have two representatives, and each will apparently be allowed to make his 45-minute speech.

Bilateral talks between Israel and its various enemies are scheduled to begin on the fourth day. Since that will be the Jewish Sabbath, however, the talks are more likely to *start next week.*

In their invitations, the US and the Soviet Union said they were aiming for agreement on interim self-government for the Palestinians within a year, leading to a permanent solution within a further five years.

Mr Baker would like multilateral talks on such issues as refugees, water resources, the environment and economic co-operation to begin two weeks from today, but most of the Arabs have made it clear that the start of multilateral talks depends on progress at the bilateral stage. Despite *apparent divisions on the mat*ter – Syria, in particular, has expressed doubts about the regional talks – none of the Arabs want to give Israel the de facto recognition that comes *with such talks without* at least a promise of an Israeli withdrawal from occupied territory.

"The serious discussion will take place in the bilateral phase," Mr Esmat Abdel-Meguid, Egyptian secretary-general of the Arab League, said in London last week. "I think for the first time the Arabs are serious and ready to discuss peace with Israel. It is now or never."

The mood is far from conciliatory. Mr Farouq al-Sharaa, Syrian foreign minister, has said he will refuse to shake hands with his Israeli counterpart. The omens for the conference are hardly favourable, but then many of the participants are astonished it is happening at all.

Shamir plays two tunes for home and away

By Hugh Carnegy in Madrid

THE FIVE-HOUR flight from the eastern extreme of the Mediterranean to the west was enough yesterday to evince a marked switch in style by Mr Yitzhak Shamir, the Israeli prime minister.

On his arrival in Madrid Mr Shamir assumed the mantle of peacemaker. "We do not wish to wait any longer for peace and if our counterparts come in the same spirit our years of waiting will have come to an end," he said.

The tone was rather different on his departure from Tel *Aviv's Ben Gurion airport.* Referring to a series of attacks on Monday and yesterday by Arab guerrillas in which Israeli settlers in the occupied West Bank were shot to death and a number of soldiers wounded in southern Lebanon, Mr Shamir was more customarily combative.

"All the people of Israel and all the world heard yesterday and understood the real meaning of the olive branch carried by Palestinian murderers. We know how to strike at them ..." he said.

Mr Shamir said Israel would not freeze Jewish settlement in the occupied territories. That, along with the refusal to consider *the Arab demand that he* exchange territory for peace, was the uncompromising theme constantly reiterated.

In Madrid the Israelis struck a different note. The issue of *territory and settlements* were played down in favour of more general expressions of hope for peace. Of course the Arabs would make their demands, and Israel had its positions. But the main thing was to get down to real negotiations, said Mr Binyamin Netanyahu, the deputy foreign minister.

Lebanon talks conditions

By Lara Marlowe in Beirut

LEBANON's prime minister yesterday said his country would not participate in bilateral talks with Israel unless Jerusalem first agreed to withdraw from southern Lebanon.

Mr Omar Karame's announcement aligns Lebanese policy with Syrian demands that Israel concede territory before bilateral talks can begin between the Jewish state and its Arab neighbours.

Hours earlier, three Israeli soldiers were killed and five wounded in two guerrilla attacks in south Lebanon.

Mr Karame reaffirmed government approval of such acts at a special session of parliament to discuss Lebanon's participation in the Madrid talks. "National resistance is the right of the people as long as their land is occupied," he said.

Three themes dominated yes

Palestinians seek to 'open doors' in Madrid talks

By Tony Walker in Madrid

THE Palestinians said yesterday their delegation had come to "open doors" in direct talks with the Israelis.

Mrs Hanan Ashrawi, the Palestinian spokeswoman, said: "We have come to open up a new possibility for a just case based on the resolutions of the United Nations and the will of the international community."

"We hope that no one is coming only to shut these doors... here we have in mind particularly the relentless Israeli settlement drive" in the occupied territories.

Mrs Ashrawi, a professor of English literature from Birzeit University in the West Bank, welcomed an apparently conciliatory statement by Mr Yitzhak Shamir who said all issues would be on the table.

"I was pleasantly surprised," she said, "to hear a new tone emerging from Israel." She hoped words would be borne out by deeds.

Mrs Ashrawi rejected accusations by Israeli officials that she had condoned Monday's violence in the West Bank in which two Jewish settlers were shot in a bus attack by Palestinian militants. "This is another attempt at discrediting the Palestinian voice," she said.

Mr Faisal Husseini, leading Palestinian in the occupied territories and head of an advisory team in Madrid which is expected to liaise closely with the Palestine Liberation Organisation, described the PLO "as one of the realities in the Middle East. I believe that behind *the peace process lies the* PLO," he said.

Israel had said it will not deal with Palestinians associated with the PLO which it describes as a terrorist organisation. Palestinian delegates in Madrid make no secret of the fact that they are liaising closely with Tunis.

● Mr Yassir Arafat, chairman of the PLO, urged Palestinians to support their delegation at the Madrid conference with Israel, and not to allow pro-Iranian groups to derail the peace negotiations, Reuter adds from Tunis.

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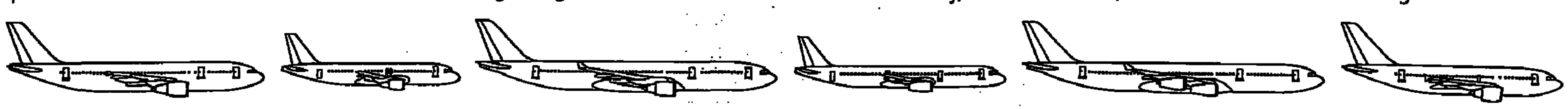


AIRBUS INDUSTRIE

INTERNATIONAL NEWS

Japan's PM-in-waiting set to recall old guard

By Robert Thomson in Tokyo

MR Kiichi Miyazawa was installed as the new president of Japan's ruling Liberal Democratic Party (LDP) yesterday, as a bruising factional struggle continued for positions in the cabinet to be formed after he is appointed prime minister next week.

The party has informally chosen Mr Tsutomu Hata, head of an electoral reform committee and a former agriculture minister, to be the next finance minister, while Mr Michio Watanabe, a faction leader defeated in Sunday's leadership ballot, is likely to be foreign minister, much to the surprise of many Japanese.

Mr Watanabe is unusually candid for a Japanese politician, but he has accumulated a long list of gaffes, which have resulted in him publicly apologising, at different times, for insulting Americans, Chinese, Brazilians, and a well-known Japanese writer.

He is apparently trying to fashion an image for himself as a statesman, as he has sensed that he is not taken seriously by many Japanese.

During an election campaign early last year he suggested that "if the LDP loses, the yen will drop, leading to inflation, and inflation will lead to bankruptcies, and bankruptcies will lead to suicides".

A faction headed by Mr Hiroshi Mitsuzuka has been told by the party's largest, the Takeshita faction, that it will get none of the senior party posts. Mr Mitsuzuka was also a candidate for the party leadership, but has offended leading members of the Takeshita faction, which senses an opportunity to damage Mr Mitsuzuka's power base.

While causing offence to the largest faction is a barrier to a senior appointment, involvement in past scandals is no longer a problem.

The rise of Mr Miyazawa, who had resigned over the Recruit stocks-for-favours scandal, has allowed other tainted politicians to compete for new posts after having been refused admission for the past two years.

Mr Toshiki Kaifu, the outgoing prime minister, had insisted that his cabinet be kept clean.

However, the new cabinet appointees are expected to include officials implicated in the Recruit scandal and in the Lockheed bribery case.

UK-Vietnam pact to return boat people

Hong Kong must be careful in implementing the controversial deal, writes **Angus Foster**

BRITAIN and Vietnam yesterday signed an agreement providing for the forcible return to Vietnam of tens of thousands of boat people from Hong Kong, except for the relatively small number classified as genuine political refugees.

The agreement, which will eventually lead to the closure of the overcrowded Hong Kong camps where the boat people have been housed in miserable conditions, sometimes for years, should also sharply reduce the number of boat people setting sail for the colony.

Nearly 64,000 boat people are currently herded in camps in Hong Kong and almost 20,000 have been classified as economic migrants, unqualified for resettlement to the West. A further 30,000 awaiting classification are also likely to fail in their bid for genuine refugee status.

Hong Kong officials described the accord as a "major breakthrough" in solving the 16-year-old problem. The US administration, too, has not opposed the agreement, in spite of its previous strong objections to any forced repatriation.

The US Congress, however, remains hostile to any such agreement, and is expected to watch the operation closely.

A spokesman for Senator Claiborne Pell, chairman of the Senate foreign relations committee, said Mr Pell reiterated his opposition to forcible repatriation and hoped that full advantage would be taken of the voluntary return provisions of the agreement.

Vietnam is thought to have changed its position on mandatory repatriation as part of moves to re-establish ties with China and South-East Asian countries, most of which have been affected by the boat people problem.

Mr Alistair Asprey, Hong Kong's secretary for security, said the agreement would initially cover any boat people arriving in Hong Kong from yesterday. Status determination for new arrivals will be speeded up and if they are found to be economic migrants they will be sent back to Vietnam almost immediately.

For many of Hong Kong's boat people the agreement will come as heartbreaking news.

After risking their lives to reach the British colony, they expected a speedy one-way ticket to freedom and riches in the US. For a small group who have spent their last three years in Hong Kong's camps, and genuinely fear persecution if they return to Vietnam, the agreement may be the last straw. Aid workers say they believe at least some of the warnings of violence and suicides if forced repatriation goes ahead. But for Hong Kong, the resentful host, getting the agreement may have been the easy part.

Hong Kong now has a mechanism in place for clearing its camps. But it needs to act cautiously to prevent another public relations disaster, such as in 1989. Then, the forced return of 51 people, mainly women and children, under cover of darkness aroused international criticism and Vietnam backed away from accepting further forced returns.

Hong Kong security secretary, Alistair Asprey, yesterday

Hong Kong also needs luck. Vietnam, already accepting about 1,000 voluntary returnees a month, is extremely concerned about taking back large numbers of boat people because they have to be re-integrated and found jobs. Vietnam could therefore use several excuses, such as perceived US opposition to forced returns, to back-track on the agreement.

Since 1988 Hong Kong has "screened" arrivals to determine whether they are genuine refugees or economic migrants who will have to return home as illegal immigrants. The screening process, which is open to appeal, was initially criticised by aid workers as unreliable but following improvements is now accepted.

Mr Asprey said it could take two to three years to send most of the people back to Vietnam.

Forced repatriation will fall into three phases, with each progressively more difficult to achieve without violence and controversy.

The first phase, due next month, will see the forced return of about 250 "double backers", who have arrived back in Hong Kong after volunteering to return to Vietnam, and their families.

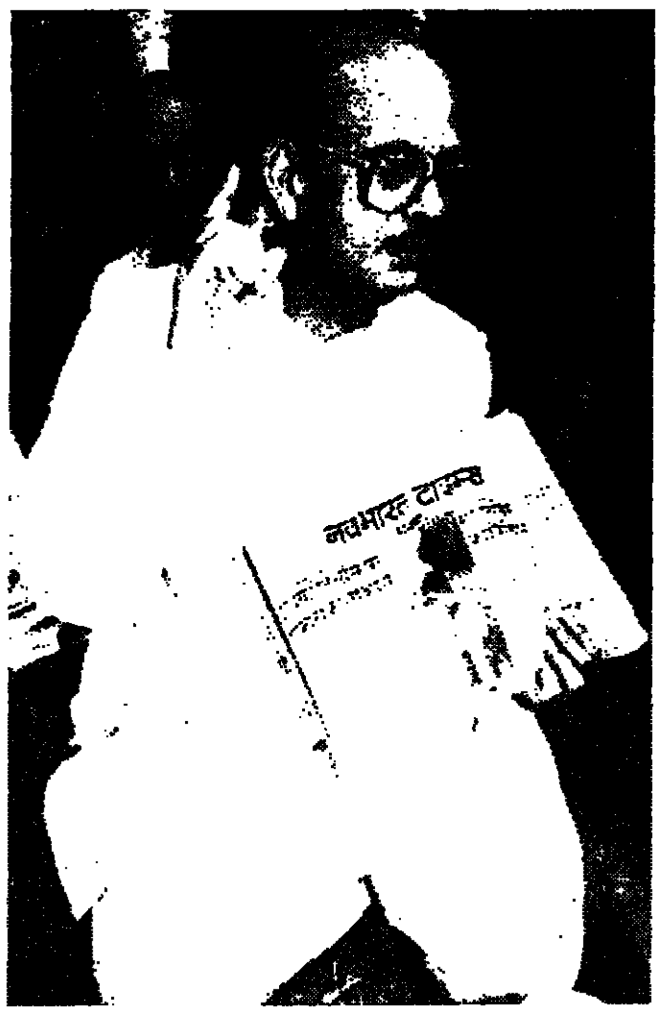
Hong Kong is negotiating the use of aircraft to fly this group back. Drawing on lessons learned in 1989, the return will take place in daylight and the media will be given restricted access to cover the event. There is little international sympathy for the double backers, since most returned to Hong Kong to try to qualify for a second re-integration payment from the United Nations High Commissioner for Refugees.

The next group will be all boat people who arrived in Hong Kong from yesterday and do not qualify for refugee status. New arrivals will go to the front of the screening queue, which at present takes two years, and could be "screened out" as economic migrants within eight weeks.

But the number of new arrivals is already dipping. So far this month only 479 have arrived in Hong Kong. This is partly because the traditional sailing season has now ended as winter approaches, and partly because the UNHCR last month announced that the cash payment to voluntary returnees, sometimes equivalent to two years' salary, was being cut from US$360 (£210) to a maximum of $50.

If new arrivals continue to drop off, Mr Asprey said attention would "quite quickly" turn to the existing camp population, the largest and most important group. Hong Kong is reluctant to give a time frame for this move, because details need to be agreed with Vietnam. The colony also hopes voluntary repatriations will increase as boat people realise they have to go home. But no forced returns from this third group are expected this year, and it may be next spring before the first flight is sent back. This is when Hong Kong's problems will begin.

"There is a hard core which will resist any effort to send them back. They are in a minority, but when they say they will kill themselves rather than return, they probably will," one camp official said.



Mr VP Singh, former prime minister of India (above), after his arrest yesterday while on his way to protest against moves by Hindu activists to build a temple at a disputed site, where there is a mosque, in the town of Ayodhya. Several of Mr Singh's aides were also briefly detained, writes K K Sharma in New Delhi.

While the leaders of the protest were arrested, hundreds of others defied a ban on demonstrations near Ayodhya and clashed with police. At least 25 were reported to have been injured. The arrests and demonstration marked the beginning of an "Ayodhya march" called by Mr Singh's coalition party to protest against what they said was a move by the Uttar Pradesh government, controlled by the Hindu revivalist Bharatiya Janata Party, to demolish the mosque.

The Uttar Pradesh government is believed to have recently made moves to acquire land near the mosque with the aim of starting construction of the temple. Last week, a court allowed the acquisition of the land but barred the erection of "permanent structures" there. Mr Singh's party protested yesterday against the state government's moves which could be the beginning of fresh violence in the area.

Japanese indicators fall sharply

JAPAN'S index of leading economic indicators fell to 10.0 on a scale of 100 in August, below the so-called "boom or bust" 50 mark, indicating that the economy is slowing, the government's Economic Planning Agency said, Reuter reports from Tokyo.

The index, which predicts the probable level of economic expansion in the coming six months, stood at 36.4 in July.

The coincident indicators, which measure current economic conditions, fell to 20.0 in August against 60.0 in July, the agency said. The lagging indicator, which traces economic trends in the past, was unchanged at 42.9 in August from 42.9 in July.

Mr Hiroshi Yasuda, the deputy finance minister, said it would be questionable to judge economic trends on one month's data.

Asked about increasing expectations of an imminent discount rate cut by the Bank of Japan, Mr Yasuda said: "I believe the BOJ is studying the economy based on various data, but the BOJ has the exclusive right to decide a change in the discount rate."

Commonwealth visit to S Africa

CHIEF Emeka Anyaoku, the Commonwealth secretary-general, yesterday left for South Africa to explore ways in which the Commonwealth can help the peace process and bring an end to violence in the country, writes Robert Mauthner.

The first official visit to South Africa by a secretary-general of the organisation is taking place under a mandate agreed at the heads of government meeting which ended in Harare last week. Pretoria had agreed to the mission in advance.

Returned Vietnamese spread their message of gloom

By Alex Nicoll, recently in Haiphong

IN JUNE 1989, Dinh Thi Muoi, 24 years old and pregnant, set out in a family fishing boat with her husband, her infant son and 26 other villagers. It was easy to steal away from the hamlet of Van Huong, near the resort of Do Son and the northern port of Haiphong. The houses back on to the water where fishing boats are moored.

Mrs Muoi embarked on the stormy 20-day voyage to Hong Kong because "our family met with so many economic difficulties we left to seek better living conditions". Instead, they found no future, and with constant fighting in the camps, they applied to the UNHCR to go home. They were returned to their village a year ago and life resumed apparently unchanged. Many other villagers fled as boat people and all have come home. The $360 per head which the family has received has been spent, Mrs Muoi says, on food.

She and other villagers insist that they knew nothing of the financial benefits for returning boat people when they set out. Officials say that more than 6,000 boat people have returned to the Haiphong area since this voluntary programme began in 1989.

They are always returned to their home communities – but if they abandoned jobs when they left they cannot expect to get them back. Some returnees have left again. However, departures have dropped off since the Vietnamese government announced last month that people leaving now would receive no benefit when they returned.

By no means all boat people are from ports or rural areas. Since Vietnam is a large country with a very long coastline, it is impossible to tell whether there have been resettlement problems.

The EC programme to provide assistance for vocational training, both to returnees and other communities, is still in its early stages. When it is operational, however, it will have $100m of resources to provide loans through local banks to purchase equipment or for setting up small shops and businesses.

Debate on tanks and donkeys

By Christopher Parkes in Bonn

A LONG and potentially painful game of pin the tail on the donkey started in Germany yesterday – with a search for the donkey or donkeys responsible for the dozen Soviet armoured vehicles found on a Hamburg quayside at the weekend awaiting shipment to Israel.

Candidates were hard to nail down: Mr Gerhard Stoltenberg, the defence minister, knew nothing, his office said. Ditto Mr Konrad Porzner, head of the intelligence service. And there were no volunteers from the economics or foreign ministries.

Opposition Bundestag members, however, volunteered Messrs Stoltenberg, Porzner and Mr Lutz Stavenhagen, the minister in charge of state security in the Chancellor's office, as suitable candidates for ultimate responsibility and immediate resignation.

Chancellor Helmut Kohl, due back this morning from a Latin America tour, had been kept informed, his office said.

Even the federal prosecutor disclaimed responsibility. The task of pursuing the perpetrators fell to the local state prosecutor in Hamburg. His spokesman, Mr Rüdiger Bagger, claimed the case happily: "The scene of the crime is Hamburg," he declared. There were, he added, "adequate grounds to suspect" that arms exports laws had been broken.

The *prima facie* evidence, a batch of unwanted former DDR army equipment, bundled up in orange plastic overcoats and accompanied by export documents describing it as "agricultural machinery" seemed adequate. Early indications were that the deal was struck between the "lower levels" of the defence ministry and Mr Porzner's intelligence agencies in concert with members of Israel's Mossad.

Trying to be helpful, ahead of a debate today in the Bundestag, a government spokesman assured journalists that the Israelis were interested in the electronics inside the vehicles and had not wanted them for active duty. Such an exchange between friendly security services was no reason "to ring the alarm bells".

Belgium defies Mobutu and says troops will stay

By Julian Ozanne in Kinshasa

BELGIUM, defying a demand by President Mobutu Sese Seko for Belgian soldiers to quit Zaire immediately, said yesterday that it would keep its 750 troops in the riot-torn country until the evacuation of its nationals had been completed.

Mr Mobutu's order for Belgian soldiers to leave Zaire, broadcast on state-run television late on Monday night, raised tensions in Kinshasa amid widespread fears by ordinary Zaireans that the departure of the troops will spark a much greater level of violence and disorder.

Meanwhile, thousands of chanting pro-democracy demonstrators took to the streets of the capital last night, sounding car horns, waving branches and flashing the two-fingered victory sign after rumours swept the city that Mr Mobutu had reappointed Mr Etienne Tshisekedi, the popular opposition figure, as prime minister.

Mr Frederick Kibassa, spokesman for Mr Tshisekedi, alleged last night that Mr Mobutu was increasing tensions in the capital by trying to incite people to violence by giving them false expectations of democratic change. In another development, Gecamines, the state mining company, confirmed that copper and cobalt mines in Shaba province remained closed after riots.

WORLD TRADE NEWS

Bank to finance E Europe-Soviet trade is mooted

By Judy Dempsey, East Europe Correspondent

THE European Bank for Reconstruction and Development (EBRD) is considering establishing a new bank to finance trade from eastern Europe to the Soviet Union, Mr Ronald Freeman, EBRD'S vice-president, said yesterday.

Describing the proposed bank as a kind of Marshall Plan, Mr Freeman said: "This is no gift. It will require a lot of discipline". He could envisage conditions where Poland would be extended five-year credits to export food to the Soviet Union, "during which time, the Soviets should have their oil industry up and running and earning money to pay for the imports."

Freeman: 'This is no gift'

Mr Freeman told a Paris conference that several European countries had already approached the bank for help in exporting to the Soviet Union.

An EBRD official in London said yesterday that such a bank was a "a logical institution" which would help ease the Soviet Union's food shortages. It could be set up with the help of the World Bank, International Monetary Fund, the Organisation for European Co-operation and Development, and the EC, he added.

"It is possible the EBRD would be the organisation charged with co-ordinating its activities," the spokesman commented. Mr Freeman said Soviet banks could possibly become shareholders.

It remains unclear how much capital would be needed to launch the bank, and when it would be set up, although a high-level meeting in Brussels on November 11 of these international financial institutions could provide the ground-work and timetable.

The idea for such a bank was mooted by Mr Jacques Attali, EBRD chairman, during the recent IMF meeting in Bangkok. But officials from eastern Europe, notably Mr Jiri Dienstbier, foreign minister of Czechoslovakia, have been keen to secure western credits to finance east European exports to the Soviet Union.

The need for such a bank stems from the collapse of east European-Soviet trade after the substitution of the "transferable rouble", the accounting currency formerly used between these countries, for hard currency. This has meant the Soviet Union has been unable to afford east European imports, particularly foodstuffs.

South America's Mercosul trade zone leaps ahead

Steps to integration have come, but concern remains over Brazilian instability, **Christina Lamb** writes

SIX months after a treaty was signed to create a tariff-free common market for Latin America's southern cone, the arrangement, the Mercosul, is showing surprisingly promising results.

Not only has there been a large upswing in trade between member countries, Brazil, Argentina, Uruguay and Paraguay, but the region has produced a rash of accords between governments and the private sector on everything from arms control to hydro-electric projects.

Under the Treaty of Asunción, the four countries are pledged to creating a free trade zone by the start of 1995, with common external tariffs. But Mr Carlos Chiarelli, Brazil's regional integration minister, says its impact is already being felt with a $3bn (£1.7bn) rise in regional trade this year.

More ambitiously, the governments agreed to co-ordinate policies on areas from agriculture, industry and transport to monetary policy. But as the Brazilian economy deteriorates with inflation veering out of control and persistent high taxes and import tariffs, the other members are starting to question the viability of such

Collor: tough questions

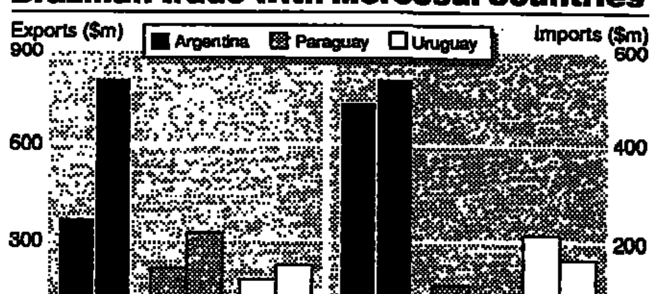
integration. Brazil, by far Mercosul's biggest member, represents 78 per cent of the region's 194m population and 82 per cent of its combined GDP. Its behaviour is thus crucial to the venture's success.

While even Argentina now has inflation down to about 2 per cent a month, Brazil's is 21 per cent, and its average 35 per cent tariff is way above those of other members. Instability continues to characterise its economy. Two weeks ago, the Brazilian Central Bank triggered a 16 per cent devaluation; last week, the government announced a return to price controls.

When the four Mercosul presidents have their first official meeting in Uruguay in December, Brazil's Fernando Collor is likely to face some tough questions. One of the sorest points is cars. The Brazilian import tariff is 60 per cent against 35 per cent in Argentina, although Buenos Aires still restricts imports. But in a common market in which Brazil is the main car maker, the smaller countries fear they may be forced to buy Brazilian cars.

Mr Christian Magarino, president of the Uruguayan car dealers' association, complained recently: "We don't want to be prisoners of Brazil, we want to buy from the US and Japan." Even Brazilian businessmen are questioning Mercosul's validity. Mr Glauco José Cortês, director of the Centre of Industries for the southern Brazilian state of Santa Catarina, says: "Common markets are incompatible with the practice of successive economic shocks. Market economies require free competition with the elimination of government controls."

Brazilian trade with Mercosul countries



Despite such rumblings, the past six months have seen many practical steps to integration. Quotas for cross-border truck traffic have been scrapped and customs posts are being integrated. Protocols of understanding have been signed between stock exchanges in Brazil; Uruguay and Argentina.

The three are investing $100m in fibre optics for better communications and discussing a joint satellite. Treaties have been signed to keep the area free of nuclear and biological weapons.

A meeting in Uruguay next week will discuss ways to solve trade disputes and fight intellectual property piracy. But the private sector has been wary of Mercosul. Mr Albano Franco, head of Brazil's Confederation of Industry, warns Brazilian business might lose out, a view echoed by his Argentine counterpart.

However, recently, activity has been promising. The French car-maker Renault in Argentina has entered a deal with Cofab, a Brazilian car-parts producer, to import any components not competitive in Argentina. This year, it will buy $2m-worth, and next, aims to boost this to $5m. Renault, with 28 per cent of the Argentinian market, hopes to link with a Brazilian dealer to enter Brazil's larger market.

Many sensitive areas remain. Brazil, the only member with a domestic computer industry, for example, fears its market will be flooded by cheap PCs from Paraguay. But progress has come in other touchy areas, such as paper and cellulose.

Mr Marcos Azambuja, head of Brazil's Foreign Office, admits the weakest area is macroeconomic integration; other Brazilian officials say that keeping Brazil in Mercosul, in whatever economic condition, is important to the other members, who are gaining access to a much bigger market. They add that only 4.2 per cent of Brazil's total exports are to the region, against Argentina's 14.7 per cent, Uruguay's 35 per cent and Paraguay's 39.6 per cent.

Yet it is Brazil that has most benefited so far, its sales to Argentina doubling on last year, those to Paraguay 50 per cent up, and to Uruguay 24 per cent higher.

Foreign investment in S Korea bounces back

FOREIGN investment in South Korea is rebounding after a two-year decline, the finance ministry said yesterday, John Ridding reports from Seoul.

Ministry figures show the value of new projects totalled $1.26bn (£730m) in the first nine months of this year, twice the level of the same period in 1990, and more than the total recorded in each of the past two years. The ministry forecast foreign investment would reach $1.4bn all of 1991.

An official attributed the increase to improved labour relations, a wage-rise slowdown and the attraction of service industries. The value of investments in manufacturing industry was $969m, more than twice the figure for the same period last year. The ministry said the trend to fewer but bigger investments was continuing, with a large increase in investment in the electronics sector.

Foreign investment in the service sector almost doubled from $160m in the first nine months of last year to $292m in the same period this year. Strongest gains were recorded in insurance, banking and trading companies. Investment in the petrochemicals industry also saw a sharp rise. Almost half the new investment came from European companies which spent $793m on start-up projects during the period. New investments by Japanese companies fell by 14 per cent to $189m while US companies raised their new investment by 18 per cent or $239m.

Brazil steel wheel case ends

THE US International Trade Commission has ended a controversial case against two Brazilian companies by finding the US industry was not injured by the alleged dumping of steel wheels, Nancy Dunne writes from Washington.

The two companies had been found guilty in 1987 of dumping. In three years of appeals, the Court of International Trade in New York twice sent the case back to government agencies for review. At one point, the ITC refused to reverse its earlier ruling.

A Brazilian embassy official in Washington said the case showed "the need for a more balanced dumping code". The ITC has also voted that dumping of tungsten ore from China injured the US industry.

AMERICAN NEWS

Wall St looks to Fed to stimulate economy

Michael Prowse finds lingering doubts over the prospects for growth in the US

THE best US growth figures since President George Bush took office early in 1989 did little yesterday to ease growing apprehension about economic prospects.

Gross national product grew at an annual rate of 2.4 per cent in the third quarter, but this was poor by the standards of previous recoveries and largely reflected buoyancy at the beginning of the period.

More recent data, including a plunge in consumer confidence in October, signals sharply slower growth – or possibly mild contraction – in the fourth quarter. With Mr Bush already distancing himself from proposed cuts in taxes, Wall Street is looking to Mr Alan Greenspan, the Federal Reserve chairman, to provide a monetary stimulus by cutting interest rates further.

Mr William Brown, chief economist at J.P. Morgan, the New York bank, said sharp increases in claims for unemployment insurance, declining consumer confidence and prolonged weakness of money and credit had fostered "considerable anxiety" about the economy. He said the Fed was likely to cut the discount rate – the rate at which it lends to banks – within the next month. The discount rate currently stands at 5 per cent, the lowest level since 1973.

Mr David Wyss, research director at DRI-McGraw Hill, a forecasting group, said the third-quarter figures were "wimpy" for the beginning of a recovery. The economy had "stalled out" since the summer and was likely to grow by only about 1.5 per cent at an annual rate in the third quarter. Growth was weak partly because imports had risen sharply during the early stages of recovery.

Mr Allen Sinai, chief economist at the Boston Group, an economic consultancy, was gloomier still. The pillars of growth in the third quarter – consumer spending, inventories and residential construction – were already "crumbling," indicating the expansion was unsustainable. The fourth quarter would be flat and the Fed "had no option but to ease".

The mood of pessimism was heightened by the Conference Board, a New York-based business analysis group, reporting yesterday an unexpectedly sharp fall in consumer confidence this month. The index fell 12.5 points to 60.4, the steepest decline since Iraq's invasion of Kuwait last year.

The index is now below the level of last October, when the recession was in full swing, and only 6 points higher than during the trough of the severe 1982 downturn.

The component of the index measuring the "present situation" – as opposed to expectations for the future – fell to 31.7, less than half the level of a year ago. The drop in consumer confidence probably reflects growing apprehension about employment prospects, weak growth of personal incomes and anxiety about high debt burdens. It follows recent declines in car sales and weak results for retailers. Forecasters are anticipating a poor Christmas season for department stores.

The 2.4 per cent increase in GNP in the third quarter was in line with expectations and followed contractions at an annual rate of 1.6 per cent, 2.8 per cent and 0.5 per cent in the three preceding periods. It was the best result since the first quarter of 1989, when GNP expanded at an annual rate of 3.6 per cent.

But on close analysis the GNP figures provided few signs of sustainable growth. About half of the increase in GNP reflected a sharp slowdown in the rate of inventory liquidation by non-farm businesses. Movements in inventories provide only a temporary boost to growth. Final sales, which exclude the impact of inventories, grew at an annual rate of only 0.6 per cent.

Consumer spending grew at an apparently healthy annual rate of 3.8 per cent, but the strength was mainly concentrated at the beginning of the period. With employment hardly growing, economists doubt this can be sustained. In volume terms the GNP figures showed a sharp widening in the trade deficit, mainly because the recovery in demand pulled in more imports.

The only unequivocally good news was a sharp reduction in inflation. The fixed-weight GNP price index grew at an annual rate of only 2.1 per cent in the third quarter, against 3.1 per cent in the second.

The prospect of Congress and the White House reaching early agreement on fiscal measures to stimulate growth appeared to recede this week.

Mr Bush signalled on Monday that he would not support tax cuts that breached last year's budget agreement with Congress. This means he is not prepared to see a further increase in the budget deficit, forecast to reach $350bn (£204.6bn) next year.

The poor growth outlook, falling inflation and fading hopes of early tax cuts are intensifying pressure on Mr Greenspan. On Monday he appeared to pave the way for further cuts in interest rates by declaring the economy had turned "demonstrably sluggish" in recent weeks.

The most likely move in the short term is a quarter point cut in the federal funds rate, which currently stands at 5¾ per cent. But many analysts also expect Mr Greenspan to lower the psychologically significant discount rate. Few, however, are confident that further monetary relaxation will breathe much life into the subdued economy.

Alan Greenspan: can offer monetary stimulus

US REAL GNP (% CHANGE FROM PRECEDING QUARTER*)

	1989	1990	Q4-90	Q1-91	Q2-91	Q3-91
Real GNP	2.5	1.0	-1.6	-2.8	-0.5	2.4
Personal consumption expenditures	1.9	0.9	-3.4	-1.5	2.5	3.8
Non-residential fixed investment	3.9	1.8	0.1	-16.3	1.4	6.6
Residential fixed investment	-4.1	-5.5	-20.6	-25.3	1.6	20.6
Exports of goods and services	11.0	6.4	11.0	0.5	4.5	0.1
Imports of goods and services	6.0	2.8	-11.8	-8.8	17.7	12.9
Government purchases of goods and services	2.3	2.8	4.7	-1.3	1.8	-6.6
Federal	2.1	2.6	4.6	-0.5	5.5	-14.3
State and local	2.4	3.0	4.9	-1.9	-0.8	-0.3
Gross domestic purchases	1.9	0.5	-5.1	-4.3	1.4	4.4
Final sales to domestic purchasers	1.9	1.1	-2.2	-4.4	2.2	2.5
Final sales	2.5	1.6	1.4	-2.9	0.3	0.6

*Seasonally adjusted — Source: US Department of Commerce

Democrat call to halt nuclear tests

By George Graham in Washington

DEMOCRAT congressional leaders have proposed a moratorium on nuclear weapons tests, adding to pressure to go beyond the nuclear arms cuts already announced by President George Bush.

President Gorbachev has said he would more or less match the missile cuts proposed by Mr Bush a month ago and wanted to go further by negotiating a test ban.

The Bush administration has been split over how to respond to the Soviet plan. Mr Brent Scowcroft, national security adviser, favours negotiations with the Soviet Union on the test ban proposal, but is opposed by Mr Richard Cheney, defence secretary.

Congressman Mike Kopetski of Oregon, backed by House Democrat leader Richard Gephardt, yesterday took advantage of this dispute within the administration by proposing a nuclear testing moratorium bill, which would halt all US explosive tests unless the Soviet Union or any of its successor states conducted tests.

"Testing of nuclear weapons by the US and the Soviet Union sends the wrong message to third world nations currently developing their own arsenals. To end proliferation in the developing world, our deeds must match our rhetoric," Mr Gephardt said.

Mr Cheney opposes a nuclear test ban on the grounds that it would hinder efforts to maintain the quality of the US nuclear arsenal.

"If we're going to rely on nuclear weapons, and clearly we are for some time to come, then in terms of guaranteeing the safety, security and reliability of that stockpile, testing is very important," he said recently.

But President Bush's move in September to eliminate tactical nuclear weapons, reduce other US nuclear missiles, and lower the level of nuclear alert has spurred more demands from the Democratic opposition – and from several conservatives – for deeper nuclear cuts.

Gorbachev tries to calm fears of Soviet break-up

By Peter Bruce in Madrid

SOVIET President Mikhail Gorbachev made a determined effort in Madrid yesterday to allay fears that the break-up of the Soviet Union was endangering superpower disarmament.

After meeting US President George Bush for the first time since the failed Soviet coup in August, Mr Gorbachev said there was "no reason to worry or to have any concern" about the pace of disarmament.

The presidents met informally for two hours in the Soviet embassy.

Mr Bush said that following new US and Soviet disarmament proposals this month, their schedules were close and they had agreed to talk further on practical steps.

He said Mr Reginald Bartholomew, a senior state department official, would begin discussions soon with the Soviet side on ways to ensure ratification of the Start treaty, agreed between Moscow and Washington in July. Two working groups had been created to undertake detailed work on the treaty's implementation.

Doubts about disarmament and the form of US aid to the Soviet Union have sharpened following moves by most republics to leave the Union.

Mr Gorbachev went to considerable lengths to reassure Mr Bush that the break-up of the Union did not imply a collapse of authority.

He insisted later that the powerful republic of the Ukraine, which had refused to join the economic treaty signed between Moscow and eight other republics this month, would eventually sign the agreement. He said he had been personally assured of this by the prime minister of the Ukraine last Friday.

However, Mr Leonid Kravchuk, chairman of the Ukraine parliament, said on Monday night that hopes his republic would join the treaty in its present form were "euphoria or deception."

Haiti to hold OAS talks

HAITI'S military-backed government starts discussions today with the Organisation of American States (OAS) on a proposed mission to negotiate the return of former President Jean-Bertrand Aristide, exiled by the army a month ago, writes Canute James.

However, a faction of the Haitian army has said Mr Aristide will not be allowed to return, regardless of the outcome of talks between the interim government and OAS.

Canadians launch drive to be more competitive

By Bernard Simon in Toronto

CANADA is stepping up its search for ways to bolster its international competitiveness, in the hope of countering a poor productivity record and finding a popular platform for the ruling Conservative party in the next election campaign.

Mr Michael Wilson, the industry minister, announced yesterday the appointment of a committee to seek advice from all sectors of the economy on a comprehensive competitiveness strategy.

This follows a critical report on Canada's industrial strategy last week by Professor Michael Porter, a Harvard economist.

The report, commissioned by the federal government and a leading business lobby group, warned that the US-Canada free-trade agreement and other global forces were magnifying long-standing competitive weaknesses in the Canadian economy and hastening the need for sweeping structural adjustments.

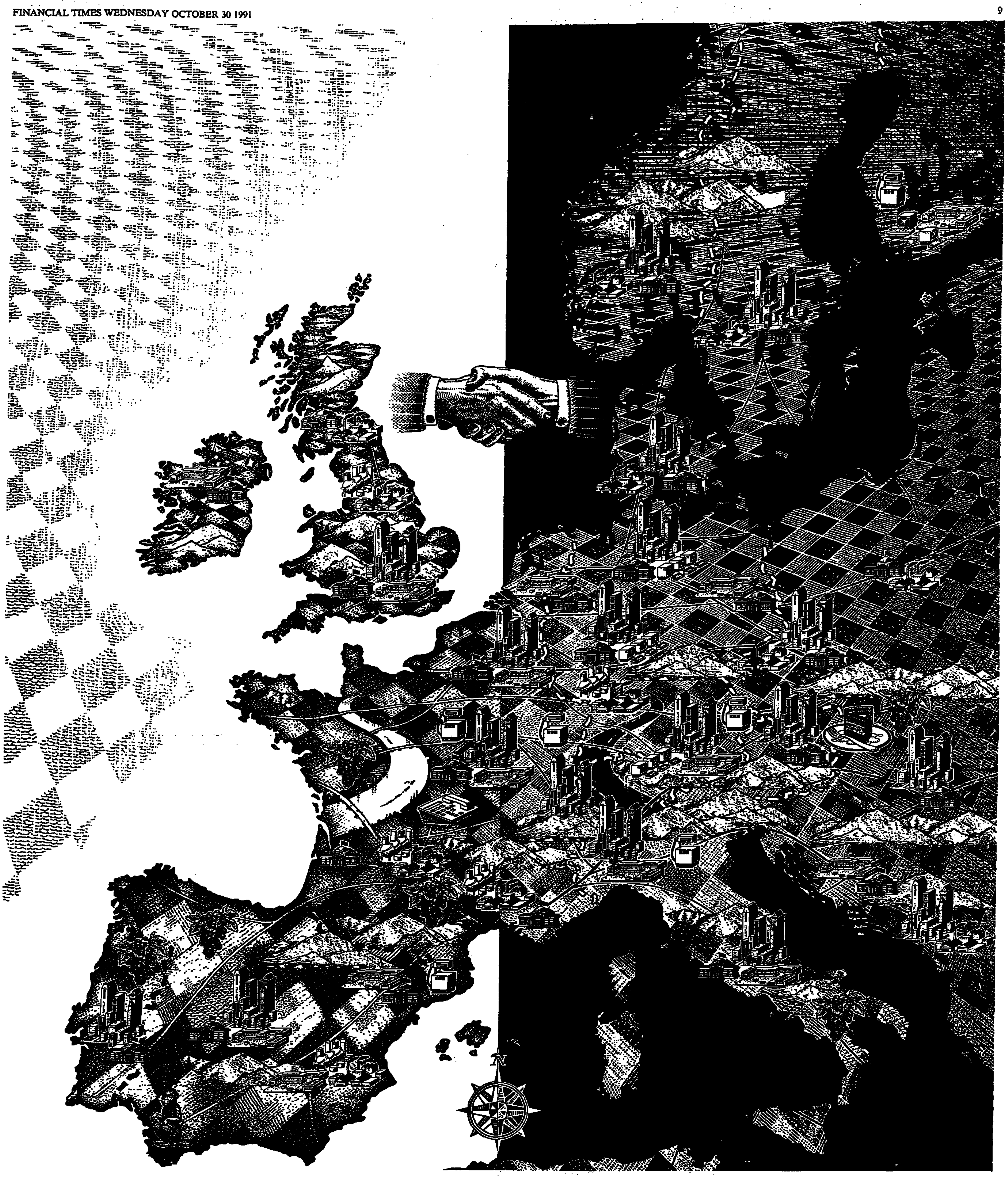
The new committee is expected to focus on education, science and technology, financing instruments, the efficiency of the domestic market place, and foreign trade. The group will be led by Mr David McCamus, chairman of Xerox's Canadian subsidiary, and Ms Marie Josee Drouin, director of the Hudson Institute of Canada.

The president of the Canadian Labour Congress, Mrs Shirley Carr, turned down an offer to act as a co-chairman, accusing the government of political motives.

Conservative party strategists hope the competitiveness drive, combined with a strengthening economy, will prove a rallying point in the run-up to the next general election, likely to be early in 1993.

The Porter report noted that Canada has hovered near the bottom of productivity growth among industrial countries since the early 1970s. Unit labour costs had risen sharply and the unemployment rate remained relatively high.

The report also expressed concern that Canada spent too little on capital investment and research and development for an economy its size.



ICL and Nokia Data, together we see more ways to help you.

ICL have always excelled in supplying integrated systems for the information technology needs of specialised markets.

Now we've merged with Nokia Data we're even stronger.

Our understanding of our customers' markets is enhanced by the knowledge and experience of Nokia Data in many areas.

They also add their commitment to ergonomics to our own in the field of open systems. Making IT easier, more pleasant and more flexible to work with.

Through significant investment in research and development (almost £300 million in 1990) and technology agreements, we continue to bring Europe the best of the world's technology.

Together we can do even more.

Offering you an even wider product range and a greater geographical presence all over Europe.

More skill, more product, more talent and more understanding of your needs.

It is easy to see, we're in a stronger position to help you.

ICL

UK NEWS

Gas prices 'second highest' in Europe

By Juliet Sychrava

BRITISH Gas is still overcharging larger consumers who face the second highest average gas prices in Europe, according to an international survey published yesterday by National Utility Services (NUS).

The survey, which analyses the prices paid by nearly 5,000 UK companies in the year to September 1991, comes at a time when British Gas faces sharp criticism from the Office of Fair Trading and the industry watchdog Ofgas for its *reluctance to relinquish its* virtual monopoly of the UK gas market.

"British Gas is dragging its feet when it comes to turning round and offering good prices to larger consumers," said Mr Andrew Johns, general sales manager at NUS.

Medium-sized companies buying gas for manufacturing on "process" contracts fared worst, the survey found. UK *companies paid an average of* 29.7p per therm for an annual supply of one million therms of gas, second only to Germany at 40.5p per therm, and level with Italy. Similar companies in the Netherlands, the cheapest country, paid only 19.7p per therm.

UK companies buying gas on an "interruptible" contract *also paid* the second highest prices in Europe, at 25.3p per therm, *behind Germany* at 34.7p per therm. "By paying in some cases as much as 27 per cent more for gas than their European counterparts, UK companies are unable to compete effectively in Europe and world markets," Mr Johns said.

He acknowledged that very large industrial customers could pay much less than the NUS average prices. It was the *medium-sized industrial companies* that suffered, he said.

British Gas contested the figures. "We continue to be among the cheapest suppliers in the domestic market, and in the mid-range in the industrial market." The last increase in gas prices had been in February 1990, when prices rose by an average of between 3 and 7 per cent, the company said.

Defaults on home loans to cost insurers £3bn

By Richard Lapper

DEFAULTS on home loans will cost the UK insurance industry more than £3bn during the next two years, well over double the level of losses previously feared, according to City estimates.

With rising unemployment further hitting the housing market, home repossessions *over the last two years have* soared.

Insurance companies, already reeling from subsidence and theft claims, will bear the brunt of the defaults, although fears have been raised that smaller and medium-sized building societies in *the south-east could be at risk.*

Insurance market leaders Sun Alliance and Royal Insurance each stand to lose over £450m over the next two to three years, according to estimates by securities houses Banque Paribas Capital Markets, Smith New Court and UBS Phillips & Drew.

Evidence of the extent of the *losses on* home loans indemnity policies – which insure lenders against a percentage of losses they might incur on the sale of properties repossessed after mortgage default – *emerged in the summer, when* insurance companies published their mid-year results.

But the insurance industry is only now becoming aware of the full extent of the problem as companies conduct in-depth examinations of the repossessions being made by the build*ing societies with which they* do business.

Over the last two years an increasing number of borrowers – many of whom had overborrowed during the housing boom of the late 1980s – were squeezed by rising interest rates and forced to default on *their mortgages.*

Repossessions rose to over 44,000 in 1990 and to 36,600 in the first six months of this year and with house prices falling, lenders were unable to recoup the *full* value of their loans and claimed on insurance policies which cover the first 25 per cent of any losses they might make.

"*The relatively lightly capi*talised building society industry could face a number of insolvencies," says Mr Tom Bennett of Banque Paribas.

Insurers, had initially hoped that the number of claims would decline as a result of a recovery in house prices and the adoption of much tighter lending policies by the building societies.

Rising unemployment, however, the main cause of mortgage default in the past, is *causing the number of repos*sessions to continue climbing. UBS Phillips & Drew estimates that the number will rise to 115,000 in 1992 and will continue at a substantial level into 1993.

The housing market has become so depressed that building societies are now making losses in excess of the insured portion of their bad loans and are carrying a growing percentage of loss on their own books.

Although the Department of Social Security pays mortgage interest on behalf of some unemployed borrowers, Mr Bennett says that relatively lit*tle of this money has been* reaching building societies.

Hard-pressed recipients are using the money for other purposes, says Mr Bennett.

Local authorities criticise plans over replacement to poll tax

By Ralph Atkins

GOVERNMENT plans for replacing the controversial poll tax have provoked widespread criticism from a range of local authority *representatives*, according to a study of responses to the government's consultation exercise.

Concern about administrative difficulties of the new council tax, its collection costs and transitional arrangements are highlighted in the analysis *by House of Commons* library researchers.

The *findings come amid* fears expressed by computer companies that the government has allowed too little time for local authorities to adjust to the new system and has failed to learn lessons from difficulties surrounding the introduction of the poll tax, the per capita charge designed to pay for local services and amenities.

Yesterday's study *also* revealed calls for the immediate abolition of the 20 per cent minimum poll tax contribution for the last year of its operation. Mr Michael Heseltine, environment secretary, has already ruled this out.

Local authority professional organisations are critical, too, of the continuing use of "standard spending assessments" by central government to assess local needs.

The study is based on the 900 responses received by the Department of Environment to its council tax consultation paper. Ministers are about to unveil, after tomorrow's Queen's Speech, the legislation introducing the tax from April 1993.

Mr David Blunkett, Labour's local government spokesman *who published the study, said:* "These responses reveal the serious flaws at the heart of the council tax. It is not healthy for a government to proceed with a proposal which is so universally criticised by the key professional and independent bodies."

Among the criticisms, the Audit Commission, the local government watchdog, says it will be difficult to estimate the *administrative burden of giv*ing discounts to single person households.

The Institute of Revenues, Rating and Valuation predicted problems with computerising the new system and argued that the single person discount conflicted with the aim of easing collection.

BRITAIN IN BRIEF

Unions attack BBC plans for restructure

Broadcasting unions have attacked BBC plans to introduce an internal market for all production services by 1993.

Mr Tony Lennon, joint president of Bectu, the broadcasting production union, said that the internal market plans and announcements expected next week on the future capacity needs of the BBC amounted to a fundamental restructuring of the corporation without reference to viewers or Parliament. He said he feared thousands of jobs could be lost.

The comments came after Mr Michael Checkland, the BBC *director general and Mr* John Birt, director general designate outlined the new system of managing resources where producers will be able to choose whether or not to use internal or external production resources for programme making.

Scottish power station talks

Scottish Nuclear, the state-owned company which runs Scotland's nuclear power stations, is *talking to the* two privatised Scottish electricity *companies to see if there is a* case for reopening its magnox power station at Hunterston A on the Ayrshire coast.

Hunterston A was shut down in early 1990 and is currently in the five year process of having its fuel removed as part of the de-commissioning process.

Mr James Hann, chairman of Scottish Nuclear, said that the company was *studying* the economic, technical and safety *case for reopening* Hunterston A which he said was closed prematurely after 26 years of working life despite a good operating performance. The situation had changed since the government decided to close the plant, he said.

Bank to offer career breaks

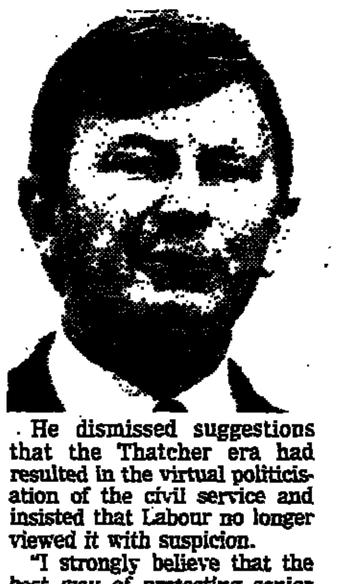
Barclays Bank is to allow staff a "*responsibility break*" *to* look after elderly, sick or disabled *relatives*. An unpaid break of up to six months will be available for those with over two years' service. Alternatively, staff can opt for part-time work for a similar period.

Career breaks for women wanting to stay at home with small children are becoming increasingly common. Leave and a flexible part-time work option linked to the care of *elderly relatives is more* unusual. Under the Barclays scheme those unable to return to full-time work after six months will be given the opportunity to work part-time on a permanent basis.

Advisers for Whitehall

Top civil servants have been told that senior ministers in a future Labour government would *expect to have their per*sonal advisers installed in Whitehall.

In a lecture to senior civil *servants Mr Bryan Gould, envi*ronment spokesman, (pictured above) claimed that a Labour government would be able to establish a harmonious working relationship with its members.



He dismissed suggestions that the Thatcher era had resulted in the virtual politicisation of the civil service and insisted that Labour no longer viewed it with suspicion.

"I strongly believe that the best way of protecting senior civil servants from some of the *problems that have led to the* allegations of politicisation is to make available to ministers a greater number of political staff than there are at present," he said.

Relocation compensation

Companies are to be pressed by a union to pay a "compensation" fee of up to £20,000 to the partners of staff who are moved to different parts of the country in corporate relocations.

The MSF general technical union said around 250,000 employees have to relocate annually and companies should recognise it was not always possible for an uprooted spouse or partner to *find work. A recent survey,* cited by MSF, found that only 3 per cent of companies provided financial assistance for spouses in relocation package, although another 6 per cent career counselling and job search assistance.

Training hits engineers

Engineering *companies are* being hampered in introducing *new technology by training dif*ficulties and problems recruiting skilled people, according to findings from a project funded by the Economic & Social Research Council.

The project, which covers 52 *large engineering companies in* Sheffield collectively employ*ing more than 11,000 people,* found that companies adopting new manufacturing technology had increased output by more than three times as much as those which had not.

However, 21 per cent of companies adopting new technology found that more skilled *labour was needed.* 36 per cent found training costs had *increased and the same per*centage found that the necessary training exceeded their in-house capacity.

Skill shortage in Merseyside

Serious and worsening shortages of skilled people are preventing many companies in Merseyside, Cheshire and North Wales from increasing their staffing to move out of recession.

Engineering companies in particular told Merseyside Chamber of Commerce and Industry that "proper and structured training" must be *developed for apprentices*, the chamber's quarterly economic *and manpower survey found.* The survey covered 161 businesses employing nearly 50,000 people.

Guidelines on housing due

The government will *not force* property developers to include a fixed proportion *of locally* affordable houses in new schemes, *Sir George Young*, the housing minister, (pictured *above) has said.*

The government is still preparing *policy planning* guidelines – which will have the

force of law – on the issue, *but Sir George told a confer*ence that existing circulars were clear. *Local planning pol*icy could declare a council's *intent to* have an element of affordable housing in all new schemes, but how much must be negotiated in each case.

Bids sought for radio licence

The Radio Authority has called for bids for the second national commercial radio franchise.

The station will broadcast on a medium-wave frequency given up by the BBC. Because the first national licence, awarded in August, went to Classic FM, the new service *will not be allowed to include* mainly classical music. How*ever, it can offer virtually any* kind of service – although there is an obligation to offer a diversity of programmes. The licence, to be held for a maximum of eight years, will be awarded in March.

Painting sold to US for $7m

A *portrait of Pope Clement VII* by the early 16th century Italian artist Sebastiano del Piombo has been sold to the Getty Museum in Malibu, California for $7m. It had been bought by a London dealer for £197.

UK NEWS

Single union deal likely at Toyota plants

By Kevin Done, Motor Industry Correspondent

TOYOTA, the leading Japanese car maker, is expected to announce shortly that it has decided in favour of a single union deal for its UK car assembly and engine plants.

The AEU engineering union and the EETPU electricians union have emerged as the front-runners with the AEU as the most likely choice.

It is one of the most highly-prized single union agreements to be made since Nissan, Toyota's arch domestic rival, started car production at its Sunderland plant in north-east England in 1986.

The AEU and EETPU are currently negotiating a merger of the two unions, which could go to a ballot of the memberships early next year.

Nissan chose the AEU for its pioneering single union deal in 1985, while Honda, the third Japanese car maker developing a car plant in the UK at Swindon, Wiltshire, has decided against union recognition.

Five unions, the TGWU transport union, the MSF general technical union, and the GMB general union as well as the engineering and electricians unions have competed intensely for the Toyota deal.

The Japanese car maker is investing around £840m in the UK to develop a 200,000 cars a year plant at Burnaston near Derby together with an engine plant at Deeside, north Wales. Employment at the two plants is set to rise to 3,300 when production capacity reaches 200,000 in the second half of the 1990s.

In the present first stage of the project around £510m is being invested to reach an output level of 100,000 cars a year with a workforce of 1,900. The bulk of the recruitment at the Toyota plant is due to take place in late 1991 and early 1992.

Engine production is scheduled to begin at the Deeside plant in mid-1992.

Toyota's proposals for the single union deal, contained in a confidential 50-page draft deal presented earlier this year, have alarmed some union leaders, who regard it as a no-strike deal.

The company is seeking a standard 39-hour, five-day week at the Burnaston plant. It also wants to be able to roster workers for up to an extra two hours a day and on alternate Saturday mornings if required.

The most controversial proposal is for a 'no disruption' deal under which pay and working practices disputes would be resolved by binding arbitration at the Acas conciliation service if they could not be resolved by negotiation.

It has decided to choose a single union deal at the UK plants in contrast to the US, where it chose not to recognise any union at its main North American car production plant at Georgetown, Kentucky, which opened in 1988.

Mr Brian Jackson, Toyota Motor Manufacturing (UK) corporate affairs director, said last year that the company would insist on "flexible working" to be able to train and deploy members according to need.

There would be single status and broad occupational classifications in order to engender a "company member" culture. It also expected to set up a "council for consultation" to give workers a collective voice regardless of union recognition.

Post Office faces fresh challenge on mail monopoly

By Roland Rudd

THE UK government hopes to erode the Post Office's monopoly on letters to allow competitors eventually to deliver mail for the cost of a first-class stamp. At present, the Post Office has a monopoly on letters which cost under £1 to deliver.

Mr Edward Leigh, minister for industry and consumer services, yesterday told the Financial Times conference on European Postal Services that the government planned to reduce the letter monopoly to a minimum limit to allow the Post Office to prove a universal letter service.

"We might be able to reduce the monopoly letter even as far as the price of a first class stamp (which is 24p) without undermining the Royal Mail," he said.

The Citizen's Charter, which first contained the government's proposals to inject more competition, suggested the letters monopoly should be reduced "to a level much closer to that of a first class letter stamp". Government officials are looking at a figure of around 30p.

Mr Leigh said he was not advocating a "big bang" approach to demonopolising the postal services. He also made it clear that the letter monopoly would have to be reduced stage by stage. However, he said: "The cost of conveying a letter across town may not be as different as we might expect from the costs of conveying a letter between two rural areas.

"If this is so, the opportunities for cream-skimming (when a private operator offers a service only for a lucrative area such as a city) might be limited and we might then be able to reduce the monopoly limit even as far as the price of a first class stamp."

Mr Alan Tuffin, general secretary of the Union of Communication Workers, which represents postal workers, warned that such an erosion in the Post Office's letters monopoly would have a "devastating effect" on the service.

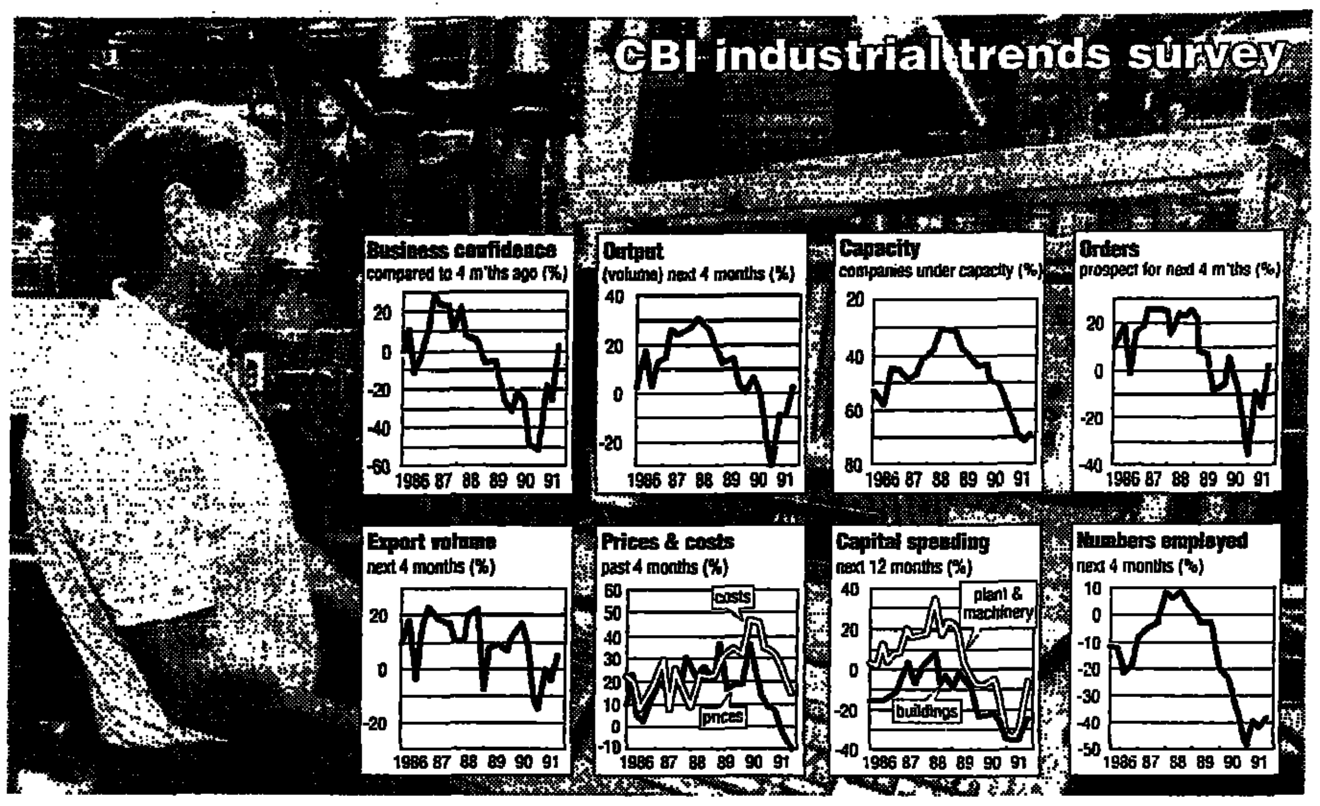
He told the conference: "Competition of this kind will clearly have a detrimental effect on the service offered to the industry user. Postal administration will be forced more and more to realign its resources into competing with the private carriers".

A Mori poll, commissioned by the UCW, found that 66 per cent of the public are concerned that postal charges would go up if private companies were allowed to compete with the Royal Mail, the letters division of the Post Office.

Mr Leigh said he was confident that the radical reforms would not effect the Post Office's ability to provide a uniform national service.

Employers predict slow economic recovery

CBI survey finds 'very fragile' signs of increasing optimism, writes Peter Marsh



BARRING a bolt from heaven or some other unexpected event, the UK economy will recover over the next year, according to Britain's employers organisation.

The upturn, however, will be slow and patchy as companies struggle to recover from the second deepest recession since the Second World War, the Confederation of British Industry (CBI) said yesterday.

Business confidence has, at least, strengthened for the first time in three years, according to the CBI's quarterly survey of British manufacturing industry.

Output over the next four months is likely to rise slightly, the survey also indicated. This is the first time since early 1990 that companies have taken an optimistic line on future production levels.

Investment in manufacturing by the end of 1991 is, however, likely to be 21 per cent down on a year ago. Mr David Wigglesworth, chairman of the CBI's economic committee, said the fall in capital investment could hinder the ability of UK companies to compete in the 1990s.

He said signs of a rise in optimism were "very fragile" and that indications of increased output varied between sectors. Chemicals and food and drink companies were relatively bullish, while engineering and textiles groups still projected a further slide in sales, though at a slower rate.

The survey involved 1,203 companies, accounting for about half manufacturing employment and exports. It was conducted between September 25 and October 16.

The CBI said the results were almost exactly in line with what might be expected at around the point in the economic circle when recession was turning to recovery. It mirrored in many ways previous CBI surveys – in January 1976 and April 1981 – when the economy was emerging from a nadir and was slowly recovering strength.

In the area of output, 20 per cent of companies in the latest survey said production in the period to February 1992 was likely to be higher than in the past four months, compared with 18 per cent which projected lower output.

The balance of 2 per cent expecting production volumes to rise was the first positive result since January 1990, some six months before the first concrete signs of the recession.

The survey also illustrated the extent of the downturn in manufacturing since the summer, when some indicators had pointed to a possible levelling off in the decline.

In the CBI's July survey, a balance of 9 per cent of companies had expected manufacturing output to turn down over the next four months. The balance of companies which experienced lower output over this period turned out, however, to be significantly higher at 28 per cent.

As regards order books, a small balance of 2 per cent of companies think orders will pick up by early next year – the first time since April last year that manufacturers have failed to project a decline.

Linked to opinion about output and orders is the question of business confidence, where a positive balance of 2 per cent of companies told the CBI they were more optimistic about the next few months. This marks the first time since October 1988 that the CBI survey has shown anything other than a general pessimism about the business climate.

The balance of 2 per cent expressing optimism compares with a 26 per cent balance expressing pessimism in the last quarterly survey in July. In January this year, business confidence hit a 10-year low.

Another indication that the business outlook may be about to improve is that 69 per cent of the companies in the survey said they were working below capacity, against an eight-year peak of 71 per cent in July.

On past trends, the number of companies working below capacity is likely gradually to decrease in the next few months.

On the export front, optimism about prospects improved for the first time since April last year, with a 14 per cent balance expecting the outlook to improve. However, the CBI warned that the UK's export performance, which over the past year has been relatively strong, could be harmed by signs of weakness in the economies of Germany and the US – two of the UK's biggest trading partners.

Other highlights from the survey included:

● Jobs. Employment has continued to fall sharply over the past four months, and at a similar rate to that seen in the first six months of 1991. On the whole, companies shed staff more rapidly than they expected in July.

In the next four months, a balance of 37 per cent of businesses expect to reduce their work forces.

● Costs. Unit costs grew more slowly in the past four months than in the March-July period. The squeeze on costs caused largely by lower wage settlements is illustrated by the balance of just 15 per cent of companies which saw unit costs rise over the past four months – the lowest result since April 1988.

● Prices. On prices of products for the domestic market, a balance of 10 per cent reported cuts in prices – the same figure as in early 1967 but otherwise the lowest figure since 1959.

The weak figure underlines the reduction in inflationary pressures and also the extent to which companies' profit margins are under pressure.

Domestic prices are expected to rise only slightly in the coming months.

Public spending, Page 22
Lex, Page 24

Car retailers call for franchise reform

By Kevin Done

BRITAIN'S retail motor industry yesterday attacked the restrictive rules applied by leading car manufacturers in their selective distribution agreements with dealers.

It also claimed that there was "dual pricing" in the UK new car market with car makers favouring large fleet customers and rental companies with large discounts, which worked to the disadvantage of private retail buyers.

In evidence to the Monopolies and Mergers Commission (MMC) inquiry into new car prices and the selective distribution system the Retail Motor Industry Federation (RMIF), has called for reform of the dealer franchise system.

The controversial MMC report into the supply of new cars in the UK is due to be delivered tomorrow to Mr Peter Lilley, trade and industry secretary, although it is unlikely to be published for several weeks.

The RMIF claims that there is abundant evidence to show that the franchise system has produced "exceptional levels of price competition" and that price differentials between EC member states "substantially reflect" variations in equipment levels.

It has argued for changes in the franchise system, however, in order to increase efficiency and competitiveness.

The motor retailers have called on the MMC to stop car makers offering "certain groups of purchasers substantial price advantages at the expense of the individual purchaser."

Council to borrow over BCCI loss

By James Buxton, Scottish Correspondent

WESTERN Isles council, which lost £23m in the collapse of Bank of Credit and Commerce International, was yesterday granted government approval to borrow to replace the missing money.

However Mr Ian Lang, the Scottish secretary, dashed council hopes that the government would fund the cost of the borrowing through the revenue support grant.

The council, which covers islands off the Scottish west coast, would have to decide for itself how it met the cost of borrowing the money, he said.

The ruling out of a government rescue means that Western Isles council will now have to consider large cuts in services and a substantial rise in the poll tax. The council has calculated that to borrow the £24m necessary to cover the lost £23m plus accrued interest and other costs, would cost about £3.4m a year over 30 years.

This would mean a cut of up to 12 per cent in the council's current spending of £56m and/or a rise in the community charge. The poll tax this year is £77 including a £51 water charge and this could rise to more than £200.

The council argues that any cuts will have a severe effect on a fragile economy in which the council is the largest single employer with 2,200 staff out of a total population of 32,000.

The poll tax base is very small and so far this year 73 per cent of the poll tax due is unpaid. Islanders have said they would be unwilling to pay any increase in poll tax caused by the BCCI losses.

Mr Lang expressed no view about the circumstances in which the council lost the money.

Disciplinary proceedings are in train against six council officials including Mr George Macleod, chief executive and Mr Donald Macleod, director of finance, and the government's controller of audit is investigating the affair.

FINANCIAL TIMES WEDNESDAY OCTOBER 30 1991

SALOMON INC

A Report by the Chairman on the Company's Standing and Outlook

To the Shareholders of Salomon Inc:

In this report, I want not only to tell you about Salomon Inc's third-quarter results but also to give you my thinking as to where the company must head.

From announcements we have made and from the media you have learned about the events that led to my appointment as interim Chairman of Salomon Inc on August 18. We have since continued to investigate Salomon's past actions in the Government securities market and in other areas as well. Our conclusion so far: A few Salomon employees behaved egregiously—a fact that will prove costly to you as shareholders—but the misconduct and misjudgments were limited to those few. In short, I believe that we had an extremely serious problem, but not a pervasive one.

. . . . . . .CONTROLS AND COMPLIANCE . . . .

Since August 18, we have installed rules and procedures at Salomon Brothers Inc, our securities subsidiary, that we think set a standard for the industry. In addition, we have begun to monitor what goes on in Salomon Brothers in new ways—for example, by setting up a Compliance Committee of the Board—and expect in that area also to be a leader.

Even so, an atmosphere encouraging exemplary behavior is probably even more important than rules, necessary though these are. During my tenure as Chairman, I will consider myself the firm's chief compliance officer and I have asked all 9,000 of Salomon's employees to assist me in that effort. I have also urged them to be guided by a test that goes beyond rules: Contemplating any business act, an employee should ask himself whether he would be willing to see it immediately described by an informed and critical reporter on the front page of his local paper, there to be read by his spouse, children and friends. At Salomon we simply want no part of any activities that pass legal tests but that we, as citizens, would find offensive.

. . . . .OPERATING RESULTS. . . . .

Ordinary operations during the third quarter produced excellent profits, in large part because of exceptionally favorable trends in the fixed-income markets. I need to alert you, however, to two major adjustments that affected the bottom line, one negatively, one positively.

In the first instance, we have set up a pre-tax legal reserve of $200 million for potential settlements, judgments, penalties, fines, litigation expense and other related costs. In the second instance, the compensation expense we have recorded for Salomon Brothers is about $110 million less than what might normally be expected. Because certain legal costs may not be deductible for tax purposes, different tax rates apply to the two unusual items. Their combined effect, therefore, was a reduction in net income of about $75 million.

. . . . .LEGAL COSTS. . . . .

I would like to elaborate on each of these unusual items, beginning with legal costs. No one can now estimate with any degree of certainty what the eventual direct costs of Salomon's past misdeeds and misjudgments will be to the company. (There are also very important secondary costs, such as loss of business and increased funding costs; but, as I shall detail later, there may additionally be secondary benefits, perhaps substantial.) Whatever these costs are, however, our large equity base—$4 billion—virtually insures that they will not be crippling.

We will pay any fines or penalties with dispatch and we will also try to settle valid legal claims promptly. However, we will litigate invalid or inflated claims, of which there will be many, to whatever extent necessary. That is, we will make appropriate amends for past conduct but we will be no one's patsy.

Accounting rules require that we review the size of our reserve with our auditors and counsel. That has been done and—based on the limited amount of information presently available—they agree with the present estimate. We will make upward or downward adjustments to the reserve as information and events clarify the situation.

. . . . .COMPENSATION. . . . .

Most of you have read articles about the high levels of compensation at Salomon Brothers. Some of you have also read discussions of incentive compensation that I have written in the Berkshire Hathaway annual report. In those, I have said that I believe a rational incentive compensation plan to be an excellent way to reward managers, and I have also embraced the concept of truly extraordinary pay for extraordinary managerial performance. I continue to subscribe to those views. But the problem at Salomon Brothers has been a compensation plan that was irrational in certain crucial respects.

One irrationality has been compensation levels that overall have been too high in relation to overall results. For example, last year the securities unit earned about 10% on equity capital—far under the average earned by American business—yet 106 individuals who worked for the unit earned $1 million or more. Many of these people performed exceedingly well and clearly deserved their pay. But the overall result made no sense: Though 1990 operating profits before compensation were flat versus 1989, pay jumped by more than $120 million. And that, of course, meant earnings for shareholders fell by the same amount.

A related irrationality is connected to the lopsided way in which Salomon has earned its profits—a matter, indeed, on which Salomon's directors were not supplied sufficient information. The data I now have available show that Salomon's lackluster overall profits of recent years resulted from a combination of excellent earnings in a few areas of the business—operating in an honest and ethical manner, it should be added—with inadequate or non-existent earnings at the remainder. Yet the compensation plan did not take this extreme unevenness into account. In effect, the fine performance of some people subsidized truly out-sized rewards for others. It would be understandable if a private partnership opted for such an egalitarian, share-the-wealth system. But Salomon is a publicly owned company depending on vast amounts of shareholders' capital. In such an operation, it is appropriate that the excess earnings of the exceptional performers—that is, what they generate beyond what they are justly paid—go to the stockholders.

Of course, it is difficult to quantify performance in many vital jobs, such as compliance, audit, funding, and research. For these activities, and for operational and support jobs as well, Salomon employees should normally be paid in line with industry standards, whether profits are high or low. Our compensation plans must also both reward cooperative, for-the-good-of-the-firm behavior and recognize that some business units earn relatively little in profits but deliver valuable, if hard to quantify, collateral benefits to the firm.

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	THREE MONTHS ENDED SEPTEMBER 30, 1991	1990	NINE MONTHS ENDED SEPTEMBER 30, 1991	1990
REVENUES:				
INTEREST AND DIVIDENDS	$1,612	$1,458	$4,772	$4,335
PRINCIPAL TRANSACTIONS	609	939	2,283	2,174
INVESTMENT BANKING	146	114	387	343
COMMISSIONS	49	57	159	158
OTHER	7	5	20	9
TOTAL REVENUES	2,423	2,573	7,621	7,019
INTEREST EXPENSE	1,543	1,464	4,606	4,466
REVENUES, NET OF INTEREST EXPENSE	880	1,109	3,015	2,553
NONINTEREST EXPENSES:				
COMPENSATION AND BENEFITS	212	509	1,059	1,133
COMMUNICATIONS AND EQUIPMENT	65	76	210	206
OCCUPANCY	54	63	193	152
PROFESSIONAL SERVICES AND BUSINESS DEVELOPMENT	68	75	191	192
CLEARING AND EXCHANGE FEES	21	16	61	49
PHILIPP BROTHERS DOWNSIZING CHARGE	—	200	—	200
CHARGE RELATING TO U.S. TREASURY AUCTION MATTERS	200	—	200	—
OTHER	74	36	131	88
TOTAL NONINTEREST EXPENSES	694	975	2,045	2,020
INCOME BEFORE TAXES	186	134	970	533
INCOME TAXES	101	55	434	215
NET INCOME	$ 85	$ 79	$ 536	$ 318
PER SHARE DATA:				
PRIMARY EARNINGS	$ 0.60	$ 0.55	$ 4.31	$ 2.32
FULLY DILUTED EARNINGS	0 59	0.54	4.02	2.28
COMMON STOCKHOLDERS' EQUITY			29.34	25.60
SUMMARY OF INCOME (LOSS) BEFORE TAXES BY SEGMENT:				
SALOMON BROTHERS	$ 194	$ 60	$1,009	$ 506
PHIBRO ENERGY	10	369	26	430
PHILIPP BROTHERS	—	(286)	—	(368)
CORPORATE AND OTHER	(18)	(9)	(65)	(35)
INCOME BEFORE TAXES	$ 186	$ 134	$ 970	$ 533

All that said, there remain many jobs for which performance can be concretely measured and ought to be. In these, employees who produce exceptional results for the firm, while operating both honorably and without excessive risk, should expect to receive first-class compensation. On the other hand, employees producing mediocre returns for owners should expect their pay to reflect this shortfall. In the past that has neither been the expectation at Salomon nor the practice.

Salomon Inc's directors have decided that total compensation at Salomon Brothers in 1991 will be slightly below the level of 1990. Through June 30, 1991, however, compensation accruals had been made at a rate that considerably exceeded 1990's. Therefore, a $110 million downward adjustment of the accrual was made in the third quarter.

In 1991 and in the future, the top-paid people at Salomon Brothers will get much of their compensation in the form of stock, pursuant to the Equity Partnership Plan (EPP), which previous management instituted last year and which we heartily applaud. The EPP motivates managers to think like owners, since it obliges them to hold the stock they buy for at least five years and therefore exposes them to the risks of the business as well as the opportunities. Contrast this arrangement with stock-option plans, in which managers commit money only if the game has already been won and then often move quickly to sell their shares.

In Salomon Brothers' business, which combines leverage with earnings volatility, it is particularly necessary and appropriate that the financial equation applying personally to managers be comparable to that applying to the ordinary shareholder. We wish to see the unit's managers become wealthy *through* ownership, not by simply free-riding on the ownership of others. I think in fact that ownership can in time bring our best managers substantial wealth, perhaps in amounts well beyond what they now think possible.

To avoid dilution, the trustee of the EPP purchases stock for the plan in the market and at some point in the future the company may itself elect to make stock repurchases to reduce the shares outstanding. Within a relatively few years Salomon Inc's key employees could own 25% or more of the business, purchased with their own compensation. The better job each employee does for the company, the more stock he or she will own.

Our pay-for-performance philosophy will undoubtedly cause some managers to leave. But very importantly, this same philosophy may induce the top performers to stay, since these people may identify themselves as .350 hitters about to be paid appropriately instead of seeing their just rewards partially assigned to lesser performers. Indeed, I am pleased to report that certain of our very best managers have already asked that the EPP be modified to allow them to substantially increase the proportion of their earnings that can be invested through the plan.

Were an abnormal number of people to leave the firm, the results would not necessarily be bad. Other men and women who share our thinking and values would then be given added responsibilities and opportunities. In the end we must have people to match our principles, not the reverse.

LEVERAGE

Our September 30th balance sheet totals are down by over $37 billion from those of June 30th—from $134 billion to $97 billion. The pace of change, however, has been even more dramatic than these figures indicate: Total assets on August 16, just before I became Chairman, were about $150 billion.

In Salomon Brothers' business, I should point out, substantial amounts of borrowed money are necessary and proper. We will continue, for example, to make large, short-term commitments to finance underwritings and block-purchases of equities, mortgages and bonds. Indeed, we expect to be a leader in these fields.

Nonetheless, we have deliberately brought our balance sheet totals down to reduce our leverage, and you will see the totals come down further in the months ahead. I am no fan of huge leverage in general, and in Salomon's case I believe that the swelling of the balance sheet that took place in the past was often done for the sake of all-too-marginal returns. Larger totals can actually lead to smaller profits: Undisciplined decision-making is a frequent consequence of ultra-easy access to funding, as both commercial and investment banks have learned in recent years.

One final, reassuring point about the balance sheet: Salomon's previous management strongly favored conservative reserving. Significant allowances for various risks of the business have been—and will be—maintained.

PHIBRO ENERGY

Phibro, the other major business owned by Salomon Inc, is achieving only mediocre profits this year after a terrific performance in 1990. Many investors recognize Phibro as a world leader in the trading of oil and related derivative instruments but are unaware of the magnitude of Phibro's oil refinery business. Phibro's four refineries typically process about 330,000 barrels of oil per day, which is equal to more than a third of the U.S. refining output of Exxon. But refining spreads this year have been narrow and Phibro's profits from this business have fallen sharply.

The company has made excellent progress, however, with White Nights (WNJE), its Siberian oil project, in which our Russian partner is Varyeganneftegaz Production Association. I have met with Anatoli Sivak, the talented Director General of Varyeganneftegaz and Chairman of WNJE, and share his enthusiasm about developments to date.

Essentially, this venture is drilling new wells and reworking existing wells in three designated fields. In payment, it is entitled to the incremental output it succeeds in producing over what the output would have been had WNJE's development not occurred.

To date, WNJE has undertaken 37 workovers, of which 25 were successful. Additionally, one new well has recently been completed. In aggregate, these wells have increased production by about 4,700 barrels per day. WNJE is receiving hard currency for its oil and the pace of drilling will accelerate. Though the project entails political and petroleum-engineering risks, WNJE's potential is large.

CONCLUSION

In recent years both Salomon Inc, the parent, and Phibro Energy have been treated by top management as adjuncts to Salomon Brothers. That was understandable, given that the managers of the parent came from the securities unit. Now, however, we are viewing Salomon Inc as the owner of two independent and substantial businesses, each of which will be measured by return on the equity capital it requires.

I noted earlier that there may well be future benefits that arise from our current problems. We have the prospect of correcting certain weaknesses at Salomon Brothers that were likely to remain unaddressed absent a change in management; meanwhile, the firm's strengths in large part remain intact. Though earnings volatility will always be high, Salomon Inc has the capacity amid favorable market conditions to earn substantial sums. Furthermore, I believe that we can earn these superior returns playing aggressively in the center of the court, without resorting to close-to-the-line acrobatics. Good profits simply are not inconsistent with good behavior.

Our goal is going to be that stated many decades ago by J.P. Morgan, who wished to see his bank transact "first-class business...in a first-class way." We will judge ourselves in fact not only by the business we do, but also by the business we decline to do. As is the case at all large organizations, there will be mistakes at Salomon and even failures, but to the best of our ability we will acknowledge our errors quickly and correct them with equal promptness.

The best decision I have made since assuming my post was my appointment of Deryck Maughan as Chief Operating Officer of Salomon Brothers Inc. He, along with the management of Phibro, join me in a pledge to make Salomon Inc a company that produces superior results for clients, employees *and* owners.

Warren E. Buffett
Interim Chairman

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

DOLLARS IN MILLIONS	SEPTEMBER 30, 1991	JUNE 30, 1991	DECEMBER 31, 1990	SEPTEMBER 30, 1990
ASSETS:				
Cash	$ 1,016	$ 528	$ 938	$ 1,138
Financial instruments	51,669	64,783	53,214	49,058
Energy-related products and instruments	804	759	1,256	4,140
Other commodities held for sale and related receivables	5	60	269	1,304
Collateralized short-term financing agreements	30,616	55,203	39,852	40,789
Receivables and loans	4,236	5,056	6,246	5,595
Assets securing collateralized mortgage obligations	6,864	6,122	6,831	6,911
Other assets	1,527	1,430	1,271	1,195
Total assets	*$96,737*	*$133,941*	*$109,877*	*$110,130*
LIABILITIES AND STOCKHOLDERS' EQUITY:				
Short-term borrowings	$41,344	$ 72,036	$ 42,888	$ 41,689
Financial and energy instruments	30,898	37,634	43,462	44,988
Payables and accrued liabilities	6,812	7,025	8,207	8,238
Collateralized mortgage obligations	6,442	6,108	6,821	6,941
Term debt	7,254	7,151	4,976	4,726
Total liabilities	92,750	129,954	106,354	106,582
Redeemable preferred stock	700	700	700	700
STOCKHOLDERS' EQUITY:				
Preferred	112	112	—	—
Common	3,175	3,175	2,823	2,848
	3,287	3,287	2,823	2,848
Total liabilities and stockholders' equity	$96,737	$133,941	$109,877	$110,130

NOTE – Certain prior period amounts have been reclassified to conform with the September 30, 1991 presentation.

MANAGEMENT

Soviet reconstruction

To Russia with funds

John Lloyd visits St Petersburg with a group of American financiers who are seeking investment opportunities

The great enterprises of the Soviet Union, rudderless now and in danger of drifting into an unbreakable decline, are seeking new protectors. The state and the Communist Party had formerly played the role; but now the Party is banned and the state is penniless and incoherent.

The companies will need assistance: a US enterprise called BatteryMarch is providing an early example of how it might be given.

Established and run by a Bostonian named Dean LeBaron, BatteryMarch is a pension fund which specialises in creating funds in developing markets. About a year ago, LeBaron decided to start a fund for the Soviet Union, and since then has been working with the managements of Soviet companies to prepare them for foreign inspection and capital.

For several weeks, LeBaron has been taking managers of US pension funds around five enterprises selected as promising investment candidates in Moscow, Kiev and St Petersburg. The two St Petersburg companies are Leninetz, a vast concern employing 50,000 workers making everything from aircraft electronics to toys, consumer electronics, razor blades and machine tools; and Lomo, which specialises in high quality optics.

LeBaron had chosen the two companies for their relatively sound and open management, high technology (at least by Soviet standards) and access to resources and markets. The choice had followed a year of sifting and comparing, assisted by the Soviet State Commission on Military Conversion.

What did the investors find? First, highly centralised management structures, heavy on presidential fiat and low on teamwork. In Leninetz, Anatoly Turchak runs the company from a vast office with an imposing picture of Lenin above his desk: the symbolism was obvious.

In Lomo, Dmitri Sergeev displayed a grasp of detail about his 20,000-strong enterprise which would have been hard to match in the west. To greet the half dozen officers of the US pension funds – from General Motors, the Prudential and New Jersey State – he had grouped his five vice presidents and a great many of his senior officers round a conference table – only to do nearly all the talking himself.

Second, they found companies that were not just huge, but fantastically diverse. Leninetz makes everything from advanced avionics to mechanical toys: it has started an insurance company and a commercial bank. Now it plans – according to Turchak – to run a cargo airline using its own airfield and another in Hungary deserted by the Soviet Army, as well as to open a chain of Woolworth-style shops to market its own wares.

At Lomo, the plant makes nearly all of its own components and machine tools, as well as a range of optical goods including cinema projectors and tiny microscopes. Both companies are also involved in housing, food, holiday and culture since both have an obligation to provide their workers with food to buy, as well as to eat in the canteens. Lomo also provides a large number of employees with flats. Indeed, Sergeev seemed as much preoccupied by the problems of finding food and accommodation for his workers – using his product to barter for these commodities – as by the problems of running the business itself.

Enterprises in the Soviet Union are little "company towns" in the sense that the obligations with which they have been saddled make them as much social as economic organisations. This was particularly hard for the western investors to understand.

Charles Champion, of the GM pension fund, suggested these functions might be hived off. The Soviet managers did not take the point: it seemed to have little meaning to them. The inclusive nature of the Soviet company is a tradition but also a necessity: Lomo and Leninetz make their own components and machine tools because they cannot otherwise be guaranteed supply.

Thus at a time when capitalist enterprises in the west are *stripping themselves down to* "core businesses" with components and services bought in as far as possible, the Soviet companies are going in the other direction.

Nothing so much demonstrated the gulf between western managerial practice as the presentations these men put on for their visitors. Both Sergeev and Turchak made plain – perhaps too plain – that they needed the investment. "Time," said Turchak, "is running against us". In other words, if they did not get foreign investment soon, their future was in doubt.

Both companies were putting up projects which were neither grandiose nor vague, but were precise and modest, and claimed to be money-spinners.

Leninetz already has a $60m joint venture with Gillette to expand the production of the *razor blades* it makes and which account, incredibly, for 75 per cent of the Soviet market – a market permanently in short supply. It offered to the western investors a slice of a project to expand the production of a special kind of refrigerator, called "absorption" fridges, which work by circulating ammonia round the system as a freezing agent but need no compressor, and are thus noiseless and have a growing market, especially in hotel bedrooms.

The fridges could, said Turchak, be exported to eastern Europe and had a huge market in the Soviet Union. At present, the Soviet market is controlled: the state still takes 80 per cent of the output, and *pays Rs380 each – about £13 on the* present free market-tourist rate – and sells them for Rs430. However, one of the Leninetz executives said the fridges were hard to obtain on the state market, and commanded a price of Rs1300 on commodity exchanges.

This comment was made within the hearing of a company driver, who ridiculed the executive, and said prices were about Rs3000 "if you can get them".

Lomo's project, presented by a Alexander Kuznetsov, a young executive speaking fluent English, was the creation of a factory facility specialising in the production of small microscopes for amateur and professional use.

He admitted that he could not yet compete with the west for quality, but said that the company was at present shooting for the low end of the market. However, given time, "we will be an advanced, world class optical company: we will be better than you".

The new facility, which would have 3,000 skilled workers, would be a joint stock company, perhaps with foreign participation, offering shares to the workers. "The aim", Kuznetsov said "is profit" – almost too obvious to be worth saying in the west, but in the context, an arresting assertion.

A third impression gleaned by the visitors was that Soviet enterprises have very loose labour discipline. The interchange between the senior Leninetz executive and the driver was a typically democratic example: communism *has worked to the* extent that the worker feels and acts the equal of his boss.

Asked if senior managers would get an enhanced package of shares, Kuznetsov winced and said that it might be introduced in future but that it would not be understood at present: either everyone got the same, or no-one got anything.

In the end, the investors came away with mixed feelings. One fund manager praised the strength and competence of the top management, and the urgency of their desire to change.

Another thought that the political risk – that is, of a return to communism, or authoritarianism – was *quite small. But when it came to* committing money he seemed concerned that the companies had no experience in receiving private backing. "Perhaps they have to get more efficient first", he said.

So far, nascent Soviet capitalism has been in trade: in the activities of those making a (large) profit from controlling the supply of goods *in a shortage economy. If capitalism* is to take root, it must bring in, in some form, the productive part of the economy: must engage, and change, the giants like Leninetz and Lomo, or at *least* parts *of* them. That process is at last beginning.

In with the new: but it is more than just the roadsigns that are being changed in St Petersburg

German companies in a class of their own

Andrew Adonis reports that British employers have shunned a European approach to vocational training

"Whatever you do, don't *mention the war.*" *John Cleese* might manage without Basil Fawlty's advice at the award ceremony *this evening of the* British-German School for *Vocational Training.*

Extolling the virtues of Germany's training system transplanted to Britain should prove diverting enough. If not, there is always the fact that, as yet, not one British company deigns to use it.

The British-German School was set up three years ago by the German Chamber of Commerce in London. Originally designed to make the Federal Republic's "dual system" of formal and work-based vocational training available to German firms in Britain, the vocational school in the City*, is now open to all comers. They don't even need to speak German: all the teaching is in English, with German tuition at all levels.

Seventeen German industrial and banking firms currently send trainees – including Lufthansa, Deutsche Bank, Hoechst, Siemans and Bosch. Most of the school's 30 students are British A-level school leavers, attracted to their jobs partly by the prospect of the broad training programme. For each of their first two years, they spend three six-week sessions at the school, with a programme of assignments and work-based training when back with their companies.

The course covers a broad range of business and finance subjects, with strong emphasis on the European business scene.

Students end up with a dual qualification: the German Kaufmann diploma and the Business and Technician Education Council's Higher National Diploma in Business and Finance. The school shares staff and resources with *Suffolk College*, Ipswich, which plans a similar course.

"It's an excellent combination, retaining the German commitment to broad vocational education," says John Sellars, BTEC's chief executive. The HND is an end in itself, but with another year's part-time study at the Polytechnic of East London, it can be converted into a full honours degree. "That's the strength of the British system: rapid transferability," he adds.

Hanne Sampson, the school's principal, stresses its European emphasis, and the exchange visits the school organises with a training academy in Hamburg. "The European angle is vital," she says. "It makes our trainees – particularly the British – easy at the prospect of moving round the single market."

A group of students volunteers as much – unprompted. "It's not just the formal training in business and finance," says one. "It's the chance to get the broad picture - both of how firms work, and what happens abroad."

Why don't British companies take part? Two reasons, suggests Sampson: fear of having their trainees poached and cost – the same arguments they use to skimp on their in-house training. Yet only four of the 35 students who have graduated so far have left their employers and those to go to on to university. "Why should we move," says a trainee from Bosch. "Our firms have demonstrated a real commitment to us: the opportunities to get on are far better than in a British firm."

As to cost, the course is undoubtedly expensive at about £5,000 per student per year, almost half the salary of a typical trainee. But it would fall considerably if numbers at the school went up, and anyway is not begrudged by the sponsoring companies. As Wolfgang Weise, personnel *manager at Lufthansa's London* office, says: "We do not want our trainees to do an HND for £500 at a local further education college, because it is *not linked to work as it should* be". A colleague is quick to add that if they did not send trainees to the British-German School, they would probably have to lay on the training themselves at greater expense.

A thoroughly German assumption. But they run deep at the school. "Surely, if we don't manufacture, we won't survive," one of the Bosch trainees exclaims in a class on the "circular flow of income". Try that on a Treasury clone.

**17-18 Haywards Place, Clerkenwell Green, EC1R 0EQ.*

FT LAW REPORTS

Pension benefit should be explained to doctors

SCALLY AND OTHERS v *SOUTHERN HEALTH AND* SOCIAL SERVICES BOARD *AND OTHERS*
House of Lords
(Lord Bridge of Harwich, Lord Roskill, Lord Goff of Chieveley, Lord Jauncey of Tullichettle and Lord Lowry):
October 23 1991

A HEALTH service doctor whose employment contract is negotiated not by him but by his representative body, cannot be expected to know that he has an option to buy added years under his statutory pension scheme, and his employer health board therefore has an implied contractual obligation to inform him of that right so that he can choose whether or not to exercise it.

The House of Lords so held when dismissing an appeal by the defendants, the Southern Health and Social Services Board and others, from a decision of the Court of Appeal in Northern Ireland, that they were liable to the plaintiffs, Dr Gabriel Scally and three other doctors, for failing to notify them of their right to buy added years under a superannuation scheme.

LORD BRIDGE said that the plaintiffs were medical practitioners employed in the Northern Ireland Health Service. The defendants were the respective health and social services boards by whom they were employed.

Under their contracts of employment the plaintiffs were required to make contributions to a statutory superannuation scheme and were entitled to its benefits.

To qualify for full pension it was necessary for an employee to complete 40 years' service.

The Health Services (Superannuation)(Amendment)No 3 Regulations (Northern Ireland) 1974 gave employees the right to purchase "added years" to make up the full 40 years.

That right was only exercisable within 12 months from February 10 1975 by persons already employed in the health service when the 1974 Regulations came into force, and within 12 months from first taking up employment by persons employed thereafter. By amendment Regulations of 1983, employees had a right to purchase added years at any time until two years before retirement.

Each plaintiff claimed damages from his employer for failure to bring to his notice the right to enhance his pension entitlement by the purchase of added years.

The actions were tried together by Mr Justice Carswell. He rejected the claims. Appeals to the Court of Appeal in Northern Ireland succeeded by majority.

The defendant boards now appealed.

The terms on which a young doctor could purchase added years under the 1974 Regulations were highly advantageous and represented a valuable right.

Mr Justice Carswell found that none of the plaintiffs was made aware of the right to purchase added years; that each plaintiff, if he had been aware of it, would have exercised it; and that if employing boards owed any duty to employees to bring the right to their notice they were in breach of that duty.

The question was whether the boards owed any such duty.

The express terms of the contract of employment conferred a valuable right on the employee which was contingent on his taking certain action.

Where that situation was known to the employer but not to the employee, would the law imply a contractual obligation on the employer to take reasonable steps to bring the existence of the contingent right to the employee's notice?

If there was a basis for the implication, it must lie in the consideration that availability of the contingent right was intended by those who drew up the terms of the contract for the benefit of the employee. If the existence of the contingent right never came to his attention, he could not profit by it and, as far as he was concerned, it might as well not exist.

The problem could not arise in the classical contractual situation in which all contractual terms, having been agreed between the parties, must have been known to both of them.

But in the modern world it was increasingly common for individuals to enter into contracts, particularly contracts of employment, on complex terms which had been settled in negotiations between representative bodies, many details of which the individual employee could not be expected to know unless they were drawn to his attention.

The employment of doctors in hospitals and general practice was a function exercised by the board on behalf of the Department of Health and Social Services (see article 17 and paragraph 2 of Schedule 1 to the Health and Personal Social Service (Northern Ireland) Order 1972).

The board had all the liabilities of employers, but terms of employment contracts were determined by the department, no doubt in negotiation with bodies representing doctors' interests.

The department was clearly aware of the need to bring to the attention of employees the details of the superannuation scheme.

That was shown by publication in 1975 of an "Easy to read guide" to superannuation, and "leaflet SDT" which gave additional information regarding the purchase of added years.

Circulars issued by the department to the boards required them to ensure that those documents were given to all employees.

They were never given to any of the plaintiffs.

When the 1974 Regulations introduced the opportunity for employees to buy added years, it was intended to be for their benefit. They could not enjoy the benefit unless they were aware of the opportunity.

There were three possible views of the legal consequences.

The first was that it could be properly left to individual employees to make inquiries.

That view was rejected. There was no reason whatever why young doctors embarking on a career in the health service should appreciate the need to inquire into details of the superannuation scheme.

The second view was that the law provided no means of ensuring that intended beneficiaries of the opportunity to buy became aware of it, so it would be a matter of chance whether or not the relevant provision of the 1974 Regulations achieved its intended purpose.

That view was so unattractive that it would be accepted only if there was no other legally tenable alternative.

The third view was that there was an obligation on either the employing board or the department to take reasonable steps to bring the relevant provision to the notice of employees in time to avail themselves of the opportunity to buy added years.

Since the board was the employer, though acting as the department's agent, the legal obligation, if there was one, to notify the plaintiffs of their right to purchase, rested on the board, not the department.

There was force in the submission that since the employee's entitlement to enhance his pension rights by the purchase of added years was of no effect unless he was aware of it, and since he could not be expected to become aware of it unless it was drawn to his attention, it was necessary to imply an obligation on the employer to bring it to his attention to render efficacious the very benefit which the contractual right to purchase was intended to confer.

The category of contractual relationship in which the implication would arise was defined as the employer and employee relationship in the following circumstances: (1) the terms of the contract of employment had not been negotiated with the individual employee but resulted from negotiation with a representative body or were otherwise incorporated by reference; (2) a particular term made available to the employee a valuable right contingent on action being taken by him to avail himself of its benefit; (3) the employee could not, in all the circumstances, reasonably be expected to be aware of the term unless it was drawn to his attention.

It was not merely reasonable, but necessary, in those circumstances, to imply an obligation on the employer to take reasonable steps to bring the contractual term to the employee's attention, so that he might be in a position to enjoy its benefit.

Accordingly, it was held there was an implied term in the plaintiffs' employment contracts, of which the boards were in breach.

The appeals were dismissed.

Their lordships agreed.

For the doctors: Frederic Reynold QC and Donnell Deeny QC (CG Hughes for L'Estrange & Brett, Belfast)

For the boards: Michael Lavery QC and Alva Brangam (Brecher & Co for GDH Brangam, Belfast)

Rachel Davies
Barrister

FINANCIAL TIMES SURVEY

SUFFOLK

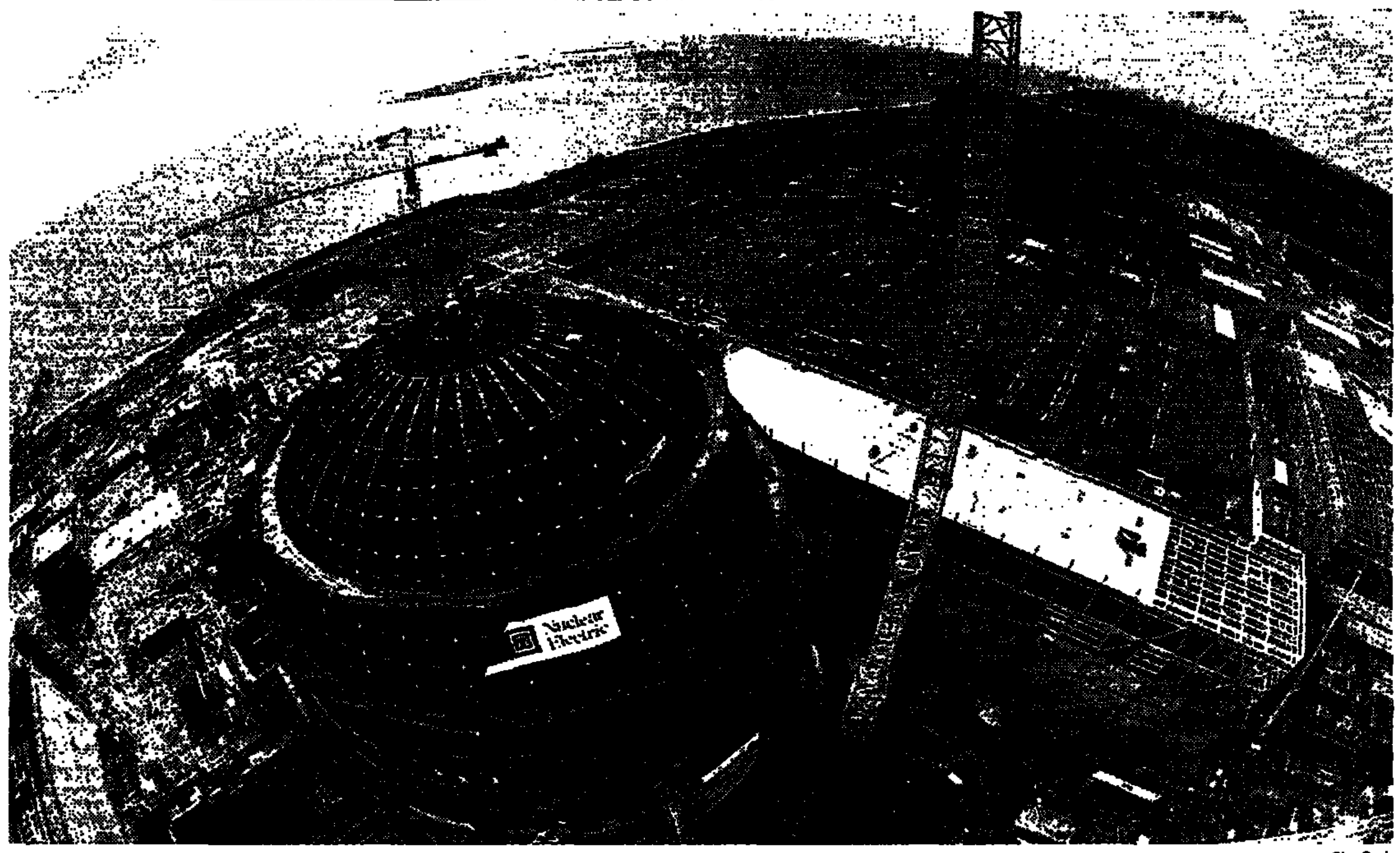
Wednesday October 30 1991

The economy is expected to be among Britain's fastest growing: Page 2

Ipswich and Felixstowe are preparing for a more competitive future: Page 3

Suffolk may not be able to offer financial incentives but with its close proximity to Europe, the main growth area for British exports, and the port of Felixstowe within its boundaries, it has the good fortune of being in the right place for the 1990s. **Stewart Dalby** investigates

Geography is in its favour



Construction of the Sizewell nuclear power station has created a large number of jobs but employment in high technology is below the UK average

Glyn Genin

THE 1980s was a period of transformation for the Suffolk economy which found itself, probably for *the* first time *since the Middle Ages, part of* the fastest-growing region in Britain. Between 1981 and 1990, the population of East Anglia – the counties of Norfolk, Suffolk and Cambridgeshire – grew by 8.7 per cent. Suffolk, which had experienced 11 per cent growth in the 1970s, increased by 8.2 per cent, and *now stands at 644,000. By con*trast, in the south-west, the next fastest-growing region, numbers rose by 6.5 per cent and in the neighbouring south-east, the increase was only 2.64 per cent

Fuelling this growth were 18,000 extra jobs and a correspondingly low unemployment *rate of 2.9 per cent over*all – and less than 2 per cent in places. Business start-ups, relocation from other parts of the country and diversification of the economy away from agriculture and related agricultural engineering all helped and, in turn, brought about a boom in local housing market prices.

In short, the county has been changing from a quiet backwater stuck out on a knuckle of land on the way to nowhere *into a bustling, integrated part* of the service-led economy of the south-east, conveniently situated close to Europe.

Recession has blown away some of the froth and Suffolk is suffering a worse than typical downturn, at least in terms of unemployment. The jobless figure for Suffolk in August this year was 5.5 per cent – still well below the national average of 8.3 per cent but high for this part of the world and *almost double the figure three* years ago.

To make matters worse, Suffolk was into the recession earlier than other parts of the country outside the south-east – and it shows few signs as yet of emerging. Small businesses have been closing by the score and large and medi*um-size companies such as* Imperial Tobacco, Bally Shoes, St Ives Food and Felixstowe Dock and Railway Company have announced lay-offs.

Whether Suffolk has been through a not-to-be repeated boom based on undervalued property prices and a growth in low-value jobs in retailing and similar services, or *has* experienced genuine diversified growth which will resume when the upturn in the national economy takes place, *is now the question facing* county planners and others involved in promoting Suffolk's future development.

The boom and bust cycle in the housing market has been striking even by the standards of south-east England and has brought the usual crop of hard-luck stories. For example, *there is the experience of two* artists who bought a rundown 16th century farmhouse set in fields for £47,000 in 1984 and worked lovingly on restoring and extending it. By 1988, estate agents were beating a path to their door with offers of £210,000. Earlier this year, the best *quote* they could obtain was £135,000.

The collapse in property prices would not matter except that there is evidence that a lot of equity has been taken out of *residential property to aid* business start-ups. Some 89 per cent of Suffolk businesses employ fewer than 25 people. Better technological communications, including fax machines, has meant that printers, designers, software makers, even cheese and yoghurt makers have been able *to set up and* work, *as well as* live, in Suffolk.

The fact that many of these small operations now have debt rather than inflated equity in houses suggests that this particular process might not be repeated in the next economic cycle. Another explosion in house prices seems unlikely in the immediate future, in any event. Prices are now much higher and the differentials with London and the south-east are much smaller.

If the growth in house prices and the explosion in numbers of very small businesses have been somewhat artificial, there has, nevertheless, been real growth and change in the economy which should continue after the recession.

The improvements to the A12 and the by-passes around *Colchester and Chelmsford*, the completion of the M25, opening up Suffolk to the east of London, the electrification of the railway lines from London as far as Ipswich – which has meant a journey *time* to Ipswich of just over an hour – have all meant that the county became increasingly attractive some *time* ago not just to commuters but also to companies.

These improvements to communications gathered pace in *the 1980s but had started in the* 1970s. In those years, the county's biggest population centre, Ipswich, in particular, obtained some big relocations. Guardian Royal Exchange and General Accident, both of which had moved insurance operations to Ipswich in the 1960s, were joined by Willis *Faber in the mid-1970s and in* 1975 British Telecom transferred all its research and development division from Dollis Hill in north London to Martlesham Heath a few miles outside Ipswich.

Old established companies, such as Ransomes Sims and Jeffries and Fisons, underwent traumas and *shakeouts* but they survived.

Birds Eye Walls in Lowestoft says that its food processing activities have so far been *largely unaffected by the reces*sion. Currently employing 1,200 people, Birds Eye has recently applied for planning permission to extend its factory, a move which will create 300 new jobs.

The port at Felixstowe has also been transformed from a little-used basin in the late *1950s into the largest container* port in the country with extensive ro-ro and bulk handling facilities. Construction of the Sizewell nuclear power station has also created a large number of jobs.

Most of the growth in jobs in the 1980s, however, was in the corridor of towns along the A45 *trunk road, namely from Bury* St Edmunds down to Ipswich.

The growth in jobs, moreover, has mainly been in distribution, retailing financial and business services, recreation and transport. Employment in manufacturing has fallen overall, although in some sectors it has gone up.

Manufacturing has remained relatively specialised and Suffolk is still under-represented in growth areas such as science-based manufacturing or high technology industries. Most jobs are in mechanical engineering associated with agriculture, in timber and furniture, in food processing and in drink and tobacco. Employment in high technology at *about 5 per cent is below* the UK average of 5.7 per cent and would be even lower were it not for 3,500 jobs at British Telecom.

"Suffolk has done well in recent years, but much of the growth has come from companies already in the county. We should try and diversify our *manufacturing by getting new* high technology companies to come here. It would not be wise to develop a dependence on distribution and storage simply because we are perceived to be close to Europe," Mr John Williams, economic development officer at Suffolk County Council, says.

Manufacturing leaders within the country are confident, however, about the county's long-term prospects. "Suffolk should continue to grow when the recession ends," says Mr John Lineker, the general manager of Birds Eye in Lowestoft.

"Communications have *changed the place. In our* business we can have produce in the shops in Holland the same day as it is packed because of the frequent ro-ro services at Felixstowe. London is only an hour from Ipswich but roads north of the town badly need improving."

Suffolk may not be able to *offer financial incentives but* geography is in its favour. With its proximity to Europe – the main growth area for British exports – an important port within its boundaries, a new international airport at Stansted in neighbouring Essex, and the decision that the high speed rail link from *the channel tunnel will con*nect with trains east of London rather than west, it has the good fortune of being in the right place for the 1990s.

SUFFOLK 2

David Utting on the county's economic prospects

Merely a question of time

THE Suffolk economy has been among the fastest growing in Britain and is confidently expected to become so again. The question that no one yet cares to answer with any degree of precision is: When?

County economic planners and industrialists, whose enthusiasm for the long-term prospects has few qualifications, mingle that optimism with a dull conviction that the last blows from the recession have still to be absorbed.

"Somehow, in the late 1980s, Suffolk was 'discovered' and experienced a boom economy. But we have paid the penalty since," said Mr David Moore, managing partner of accountants Grant Thornton (East Anglia) and chairman of the CBI's Suffolk County Group.

"We went into recession earlier than most other areas – you can certainly put it back to the summer of 1989 – and the many new businesses that were formed in the three years prior to that have proved especially vulnerable."

Complaints of a worse-than-typical downturn after the 1980s service-led growth suggests Suffolk's experience has been similar to the rest of South and Eastern England.

Employment growth in the Ipswich travel-to-work area, for example, was 15 per cent between 1981 and 1989 against 8.5 per cent averaged nationally.

Yet the county's unemployment rate has since more than doubled from its low 1989 point of 2.7 per cent. Job losses have included 400 at Imperial tobacco's Ipswich factory, 170 jobs at Bally shoes, Lowestoft, and 152 jobs at sugar confectioners Van Melle of Bury St Edmunds.

But unemployment statistics may provide an inadequate guide to recession in circumstances where nine out of 10 county firms employ fewer than 25 staff. Outline statistics also blur the extent to which the Suffolk economy remains rather specialised.

Recession and restructuring in the early 1980s saw the loss of 1,200 jobs in agriculture and 4,900 in manufacturing industry. But that has still left 3.8 per cent of the Suffolk workforce *involved in agricultural* activities compared to 1.4 per cent countrywide.

Manufacturing by 1989 accounted for a nationally typical 23 per cent of employment

Manufacturing by 1989 accounted for a nationally typical 23 per cent of employment, but almost a third of those jobs were agriculture-related, *including farm machinery*, mechanical engineering and the food, drink and tobacco sectors.

Expansion of the service sector produced an extra 18,000 jobs between 1981 and 1987. As in other southern counties, the *financial and business sectors* did well, putting on 6,000 jobs, but distribution, transport, hotels and catering did even better – a reflection of the improved road network and Felixstowe's importance as a port.

The geographical spread of new jobs was also significant: eight out of 10 were located in towns along the A45 which links Felixtowe, Ipswich, Bury St Edmunds and Newmarket to the Midlands.

The importance of this corridor was confirmed last year by a survey of industrial land availability and the commercial property market carried out for Suffolk County Council by Drivers Jonas. It concluded that speculative development of vacant land around Ipswich and Bury St Edmunds was commercially viable.

It was marginally so in the *smaller industrial centres of* Sudbury and Hadleigh but decidedly non-profitable in Lowestoft and Halesworth in the north-east of the county.

The report also warned that although Suffolk enjoyed an adequate supply of potential *land for development*, short-term availability was another matter.

Recession has, at least, allowed a breathing space during which the provision of available sites, such as a projected 60-acre business park *east of Bury's Moreton Hall* estate, can progress. The assumption among county planners is that by the time demand resumes, there will be no lack of appropriate space for incoming and expanding companies.

On the theme of recovery, Mr John Williams, the county council's economic development officer, quotes figures based on a Cambridge Econometrics forecast for East Anglia suggesting that GDP growth in Suffolk will average 1.9 per cent between 1990 and 1995, accelerating to 3 per cent a year until the year 2000.

After a slow start, the recovery depends on virtues that brought expansion in the 1980s – good communications, proximity to Europe, a pleasant living environment and the relatively low property values – reasserting themselves.

Comparison with the congested M4 and M3 corridors west of London should work increasingly in Suffolk's favour.

The county (well aware of the question-mark hanging over the survival of shire *authorities) stresses its strategic* role in directing development to the available sites, while protecting countryside that is an integral part of the attraction.

Unlike the 1980s, when growth was achieved without too much encouragement, the 1990s may see an active marketing strategy adopted. If so, the target for inward investment will be high-technology

Recession-weakened businesses will look like bargain buys for continental EC companies after 1992

industries of a type that the county still lacks. The 5 per cent of the workforce employed by such companies is low by national standards (5.7 per *cent) and would be lower still* if it were not for 3,500 jobs at British Telecom's research and development section at Martlesham.

Bury St Edmunds and the Forest Heath district, as much as Ipswich, are seen as a prime *locations, not least because of* a possible "ripple effect" from the science-based companies drawn to Cambridge.

"We see this as the type of industry ideally suited to our high quality environment: it's clean, modern and it pays well," said Mr Williams.

Opportunities to revitalise Suffolk's second town, Lowestoft, hang heavily on promised *improvements to the A12 north* of Ipswich.

Its manufacturing sector, together with its offshore exploration industry, are surviving the current recession in better shape than the last. But with employment in fisheries *down to 1,400 and falling, the* title "England's biggest fishing port" no longer says much.

Lowestoft and the adjacent Rural Development Area to the south must also adapt to the fact that from a maximum of 3,868 jobs on the site of the *Sizewell B nuclear power sta*tion, the workforce will dwindle to a mere 500 by 1993.

The closure of the US Air Force bases further south at Bentwaters and Woodbridge will claim another 500 civilian jobs.

It is a reasonable proposition that by then the East Anglian growth machine will be up, if *not running*. Mr Bob Feltwell, chief executive of the Suffolk Chamber of Commerce, believes it could be mid- to late 1992 before things get moving. "But *there are lots of people*, making lots of plans," he added.

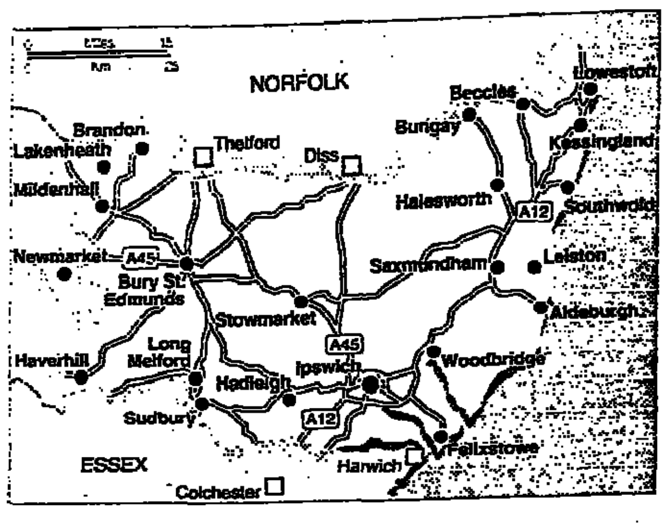
Another signpost to the future is the business delega*tion that his organisation* recently received from Nijmegen, Holland. While Suffolk pulses tend to beat slow at the prospect of a single European market, potential competitors are evidently taking a less complacent line.

The possibility that some recession-weakened businesses will look like bargain buys for continental EC companies after 1992 is another potential challenge ahead.

Mr Eric McCoy, managing director of Ipswich-based grass cutting manufacturers Ransomes, Sims and Jefferies and a director of the local Training and Enterprise Council, has, meanwhile, observed that during the traditionally bad months of July and August his company has received a few more orders than might have been expected.

"It's early days but we may now be seeing the beginning of the end of the recession," he said.

"It makes me think, more than ever, that we have got to hang in there, because the future for Suffolk is going to be tremendous. It will continue to grow faster than other parts of the country and I don't see how you can stop it."



■ REGIONAL COMMUNICATIONS

Roads speed growth

IF the economic awakening of "sleepy Suffolk" could be ascribed to one factor it would have to be the din of traffic on its greatly improved road network.

No motorway yet crosses the county's boundaries, but the 1980s saw the completed transformation of the A12 and A45 into dual-carriageway arteries, linking Ipswich to London and the Midlands respectively.

By-passes around Ipswich, including the giant span of the Orwell Bridge, opened in 1982, sped the flow of docks traffic to and from Felixtowe. When the boom began, a large slice of Suffolk was open for business.

British Rail made its own *contribution to the climate of* expansion with electrification of the line between London, Ipswich and Norwich completed in 1987. The journey time from Ipswich to Liverpool Street was reduced to about an hour and the number of commuting season ticket holders increased over four years by 36 per cent to 700.

The growth of Suffolk road traffic in 1980s was phenomenal: approaching double the highest level projected in Department of Transport forecasts. Between 1983 and 1989 it grew by 47 per cent, compared to 32 per cent nationally.

From 15,000 vehicles per day in 1987, daily traffic using the A12 is now estimated by Suffolk County Council at more than 30,000 vehicles. Mr Peter Turner, principal assistant county surveyor, says that recession slowed the growth in traffic across the road network to 1 per cent in 1989-90 compared to an average 4 per cent to 5 per cent over the 1980s. But he considers it sensible to plan for a further surge in the eight remaining years of the century.

"We have the experience of the past 10 years to show us that it could once again become very, very rapid indeed," he says.

Outside the county, the opening of the new Thames bridge at Dartford, completion of the A1-M1 link between Huntingdon and Kettering in 1993 (the A45 will be re-designated the A14) and an intention to upgrade the A12 in Essex to motorway standard will all improve the accessibility of Suffolk to traffic.

In the longer term, the idea of a privately-sponsored East Coast motorway between Newmarket and Tyneside shows some signs of gaining credibility. Current construction includes a new relief road on *the A1308 at Stowmarket and a* by-pass on the A11 where it crosses the north-west tip of Suffolk at Red Lodge. Work on a £12m bypass around Kesgrave, north of Ipswich, part-funded by private developers of the adjacent Grange Farm *estate, is due to start next* year.

It is, however, the medium-term strategy, described in last year's Department of Transport document "Trunk Roads into the 1990" that best pleases the county's economic planners and the transport and distribution industry.

As expected from its 1989 White Paper, the government confirmed plans for linking bypasses along the A12 north of Ipswich that will, collectively, create an all dual-carriageway connection to Lowestoft, including a second harbour crossing.

Target dates for the first stage, publishing preferred routes, run into 1993.

*In a departure from its previ*ous proposals, however, the Department also agreed with the roads lobby that a plan to make a dual carriageway of the A140 from Norwich to Scole on the the Suffolk border should be extended to Ipswich.

Mr Edmund King, regional secretary of the British Road Federation and director of the East Anglia Roads to Prosperity campaign, expects that the road improvements will bridge Suffolk's north-south economic divide.

"We already know of European firms who decided not to settle in Lowestoft or across the Norfolk border in Great Yarmouth because of the poor road links. This is a vital decision that will increase employment prospects in that area," he said.

One anticipated drawback to trunk road improvements is the danger of congestion in the principal towns. Traffic studies in Bury St Edmunds and Ipswich commissioned by the county council have led to proposals for implementation in the latter half of the decade. In the county town, a northern by-pass is contemplated.

Transport 2000 and other pressure groups pressing for public transport solutions to traffic congestion, accuse Suffolk County Council of undue bias towards roads. Yet in the absence of an integrated national strategy for moving *freight they are doubtful of* British Rail's ability to redress the balance.

Mr Trevor Garrod, national chairman of the Railway Development Society who lives in Lowestoft, believes the demise of Railfreight's unprofitable Speedlink service earlier this year could make it difficult to win new business. He considers its flexibility, as a scheduled service carrying loads from different sources, could have been made attractive to the many small businesses in Suffolk.

More obviously controversial is the battle being waged over the future of Ipswich Airport

"I do not think British Rail are maximising their opportunities, but the problem is a national one in the form of constraints imposed by government policy", he says.

Mr Tim Hansford, UK business director of BR Railfreight Distribution, says the new dockside terminals at Felixtowe have helped rail to maintain an estimated 21 per cent share of deep sea business through the port. About 130,000 wagons move in and out of Felixtowe by rail each year, plus a further 85,000 containers *carried on the integrated "Mas*ter Haul" package which BR markets in association with road hauliers Russell Davies.

Mr Hansford's market share statistics take no account, however, of an annual 80,000 "super cube" containers *shipped through Felixtowe* whose dimensions make them too tall for railway tunnels. Railfreight is currently experimenting with small-wheel technology with the intention of lowering its wagon base by the requisite 12 inches.

BR's passenger services reflect the new management arrangements that many interpret as a prelude to privatisation. Half the services that leave every 30 minutes from Ipswich to London are the more rapid InterCity trains and half are run by Network South-East. The latter operate the branch line service from Marks Tey in Essex to Sudbury.

InterCity insist that punctuality has improved, but the existence of only two tracks between Colchester and the outskirts of London makes the mainline service vulnerable to breakdown or signalling failure.

Cross-country services to Peterborough or Cambridge are the responsibility of Regional Railways which also runs the East Suffolk line between Ipswich and Lowestoft.

A reduction in journey times is promised from next May when more, modern "Sprinter" trains will replace 30-year-old diesel units.

Bus travel can range from once or twice weekly services in rural areas to a half-hourly schedule between the principal towns and a 10-minute frequency in Ipswich itself. Suffolk County Council was able to reduce its subsidies in the two years following the 1986 de-regulation. But this year it will contribute £500,000 to sponsoring uneconomic routes which account for 9 per cent of *all services*.

More obviously controversial is the battle being waged over the future of Ipswich Airport. Although in business for 65 years, it has a grass track runway – a drawback that rapidly and muddily confounded *attempts to fly a scheduled ser*vice to Amsterdam in 1986.

Ipswich Borough Council, as owners of the 210-acre site, are determined it should close in 1994 to be redeveloped as a mix of housing and leisure facilities. The Suffolk Chamber of Commerce are equally convinced that a redeveloped airport would help them to do business in Europe.

The County Council agrees the local economy needs an airport near Ipswich and proposes that closure should be postponed until an alternative site has been found. A policy proposal to that effect for incorporation in the County Structure Plan has been submitted to the Environment Secretary.

Whatever the outcome, the expansion of Stansted in Essex as London's third airport seems bound to enhance Suffolk's attractions. Access from Bury St Edmunds and Newmarket via the M11 is easy. But there are grumbles from Ipswich over delays on the A120 which can mean airport journey times of between an hour and 90 minutes or more.

The answer, as with so many other questions on the future Suffolk economy, is declared to be even better roads.

David Utting

SUFFOLK 3

Sara Webb takes a look at Suffolk's ports

Preparing for a more competitive future

SUFFOLK'S ports, Ipswich and Felixstowe, are preparing for a more competitive future as a result of deregulation and privatisation. The abolition of the National Dock Labour Scheme in 1989 and current plans to privatise the largest trust ports are expected to create a much tougher environment.

The passage of the Ports Act in July 1991 provided the government with the power to force the privatisation of the biggest trust ports – including Ipswich – if they do not volunteer for privatisation in the next two years.

The Ipswich Port Authority board is due to meet on October 31 to discuss its strategy regarding privatisation. It is widely expected to agree to a management-employee buy-out, following the example of the Tees and Hartlepool Port Authority which in August became the first of Britain's trust ports to bid for privatisation.

"Clearly we have to make a policy decision to determine our policy regarding privatisation and what is best for the port, the employees and local community," says Mr Alan Hanson, commercial manager at Ipswich Port Authority (IPA).

One of the Ipswich port's attractions is the land: it is situated close to the town centre and is considered a valuable development site. Already there are plans to build residential accommodation, offices, hotels and a European visual arts centre – a gallery which will exhibit computer graphics of famous paintings.

The IPA seems keen to play down the value of the land

There are also plans to improve the port by turning a coal stockpile area which was acquired from the Coal Board into an aggregate terminal with processing facilities.

Not surprisingly, given the possibility that there may be a management-employee buy-out, the IPA seems keen to play down the value of the land on which it is sitting.

"Maybe the land will be more valuable than we imagined but there are a lot of infrastructure costs involved," says Mr Hanson. "At present we do still want to use the dock land – maybe in future we could sell the land but we would want property prices to rise first." With the abolition of the

Felixstowe was able to offer cheaper services

Dock Labour Scheme, Ipswich claims to have enticed some forest products, grain and animal feed business from the North Essex ports. However, tonnage in the first nine months of 1991 is 3.7 per cent lower than in the corresponding period of 1990 as the recession has hit business.

"Before the Dock Labour Scheme was abolished, people didn't want to leave stuff stored there in case there was a strike. Now the strike threat has gone," says Mr Hanson.

The abolition of the dock labour scheme in 1989 means that Felixstowe (which had always remained outside the scheme) faces much tougher competition from ports such as Tilbury, Liverpool and Southampton.

Felixstowe, the biggest container port in Britain, was able to offer cheaper services and the prospect of industrial peace, two advantages which helped to spur the port's growth since the 1960s.

Felixstowe was acquired by Hutchison Whampoa, the Hong Kong property, container terminals and telecommunications conglomerate controlled by the entrepreneur Mr Li Ka-shing, in June for £90m. Hutchison Whampoa had been looking for an opportunity to expand outside the Far East, and the acquisition marked the first time that a foreign company has made a significant purchase of a British port.

Hutchison Whampoa bought the Felixstowe Dock and Railway company, which owns most of the port, from P&O, the UK shipping, property and housebuilding group. Mr Peter Bennett, managing director of the port, claims that the new owners may introduce customers with Far Eastern and European trading interests to the port and adds that the port feels more comfortable about owners who are committed to the container business.

Operating profit for 1991 is expected to be about £15m, lower than figures of about £17m seen in the past three years. Capital expenditure in 1992 is expected to be £9m-£10m as the port upgrades facilities such as warehousing and improves its data systems.

Felixstowe is spending about £500,000 on developing its roll-on/roll-off facilities and is planning to spend about £2m on data processing. It is developing a system whereby hauliers can use a single plastic card to identify and pick up goods, which is expected to be in use by the end of 1992 and should help to reduce the amount of paperwork.

David Blackwell on agricultural developments

Winds of change

THE Suffolk Trinity has nothing to do with the magnificent churches which dot the landscape.

It comprises red poll cattle, the Suffolk Punch horse and the Suffolk sheep – all of which testify to Suffolk's historical importance as an agricultural county. While the cattle and the heavy horse are now rare breeds, the Suffolk sheep is among the most widely distributed in the UK.

Changing times mean that the Suffolk ram is sought for its ability to sire fat lambs when crossed with other breeds, and not so much for the wool that was so important to the county in the Middle Ages.

Mr John Hargreaves, secretary of the Suffolk Agricultural Association, says local farmers still talk fondly of the Suffolk Trinity, proud that their county produced three such different animals. Representatives of the Trinity are among the top attractions at the annual county show, which is still predominantly agricultural.

Suffolk, however, is more noted for its grains than its livestock nowadays. The county breeds good arable farmers, with "yields tending to be above average in the eastern counties," according to Mr Michael Murphy of the Department of Land Economy at Cambridge University.

Nevertheless the winds of change blowing through European agriculture will not leave the county undisturbed.

At 300,000 hectares it is one of the larger counties of East Anglia. Nearly 80 per cent of the agricultural land is devoted to cereals, and the county is also an important producer of sugar beet and potatoes, as well as vegetables and oilseed rape. These crops are especially suited to the claylands of the broad plateau which sweeps from Haverhill in the south-west to the Waveney Valley in the north-east.

The so-called cereal bonanza is, however, only about 15 years old, Mr Murphy points out. According to his Report on Farming in the Eastern Counties of England 1989/90, only 40,000 hectares were sown to wheat in 1959. The area sown to wheat reached a peak of 117,600 hectares in 1984; in 1989 just over 112,000 hectares were sown. But the county is by no means a prairie. Add 55,200 hectares of barley and 3,600 of oats to the 1989 wheat figure, and still only 58 per cent of the land was sown to cereals.

Sugar beet occupied 24,300 hectares – this has been remarkably consistent over the years, with 23,200 hectares sown in 1959.

The big livestock activity

Over the past 30 years the number of farms has halved to just over 3,600

now is pig farming, according to Mr Hargreaves, who believes the county has the highest-density pig population outside Humberside. Beef and dairy herds have been more than halved in the past 15 years. But those that remain tend to be large and of the highest quality, often producing winning animals at the Royal Show.

Over the past 30 years the number of farms has halved to just over 3,600. Of these, 11 per cent are above 200 hectares; the average size of farm is about 165 hectares, compared with 48 hectares in 1959.

Farmworkers number about 5,400, giving a total of 10,000 employed directly on the land. Mr Murphy estimates that for every man at the tractor wheel, three more are employed in the supply and food processing industries.

While the size of farms has risen fourfold, real net farm income has not altered since 1952, according to Mr Murphy. The average income from 200 hectares is about £20,000 before interest charges. The fluctuating nature of farm incomes can be seen by looking back from 1989, when good potato, sugar beet and grain prices sent the average to almost £40,000. In 1986 the average was just over £10,000 and in 1987 it was about £5,000.

However, incomes are down about 25 per cent since what Mr Murphy referred to as "the glory years" of the early 1970s when Britain first joined the Common Market.

However, he is not convinced that diversification is a realistic way out of farmers' difficulties. "It's all very well to talk of diversification – but there's nothing to compare with 4 tonnes of wheat an acre at £110 a tonne."

Farmers realise that reforms to the Common Agricultural Policy along the lines of the MacSharry proposals are inevitable.

Mr Ray MacSharry, the EC agriculture commissioner, is seeking to help smaller farms in Europe by switching support away from prices to direct income aids. His plans involve a 35 per cent cut in cereal prices.

According to Mr Hargreaves, the county's farmers are alarmed that the MacSharry plans will be more suitable to smaller areas than the average Suffolk farm.

Nevertheless, he is optimistic for the future, believing that Suffolk has the right sort of technical expertise, the will, the soil and the climate to enable it to compete with the rest of the world.

"Taking the county as a whole I believe if Suffolk can't compete then God help the other counties," he says.

■ THE TOURIST INDUSTRY

Catering for all tastes and interests

THE Suffolk County Council publishes a little booklet called A Day Out in Suffolk. It lists 214 attractions and things for the tourist to do. The idea, presumably, is to demonstrate the wide diversity of activities for the visitor to the county.

The attractions are grouped under various headings such as museums and galleries, historic buildings, churches, animal and bird collections, vineyards and cider makers, right down to the pleasure parks at the traditional bucket-and-spade resorts such as Lowestoft.

In short, something for everyone whatever their tastes and interests – and certainly much more than anyone could get around to comfortably in a two-week holiday, let alone a day.

Suffolk is an ideal place to spend a family holiday as I discovered recently. Southwold, where we based ourselves, is to my mind, one of the most attractive coastal towns in England. Designed around a series of greens which were built as a result of a great fire in 1659 which destroyed many of the buildings, Southwold is both a traditional resort with chalets lining the shingle beach, and a pretty former fishing village.

Southwold has an attractive harbour where the River Blyth flows into the sea. It is possible to cross the river and go to Walberswick and then to a nature reserve and along the Heritage Coast to Dunwich.

Much of Suffolk's 50 miles of coastline is designated as Heritage Coast and is therefore protected. The two biggest towns – Lowestoft and Felixstowe – are at either end. A lot of the shore is walkable. It is a pity about the Sizewell nuclear power station which is a blot on the landscape on the shore south of Dunwich, but most visitors and locals do not seem to mind it too much.

From Southwold we made excursions to the Pleasurewood Hills American Theme Park in Lowestoft, to the Wildlife Park at Kessingland and to the Snape Maltings where the annual music festival established by Benjamin Britten has become a year-long programme of events.

There is plenty to see and do, but Suffolk has not become a tourist county such as Devon or Cornwall.

In 1987, the last year for which firm figures are available, there were only 2m visitors to the entire county. Of these, just 136,000 visitors were from overseas. The numbers are not thought to have changed significantly since 1987.

The total spend is of the order of £75m of which £17m is overseas tourist expenditure. Tourism is not a main industry in Suffolk. Mr Giles Goyder, tourism officer at the Suffolk County Council, believes this could be because Suffolk does not have any great single attraction or "product".

It does not have a big coastal resort. Lowestoft has a nice beach and has just won a European Community Blue Flag for

There is no single aspect which could lead to mass tourism

it, but the town has always been overshadowed by nearby Great Yarmouth. Bury St Edmunds has some attractive medieval buildings and the Abbey ruins, but nothing as grand as the castle and cathedral in Norwich, or the cathedral at Ely.

Apart from the Pleasurewood Hills American Theme Park, there are only half a dozen places which attract more than 60,000 visitors a year.

There is no single aspect of Suffolk which could lead it to develop mass tourism. The county authorities prefer it this way.

As Mr Goyder puts it: "We realise that we have a wide range of assets which cater to all kinds of small interest groups. Southwold sums it up in a way. It has something for the retired television news readers and colonels in fine restaurants, good shops and the summer theatre. There are the nature reserves and the Heritage Coast for walkers and bird-watchers. But there is also sailing and watersports or lots of self-catering for those that want a simple bucket-and-spade holiday."

While the county authorities may not want hordes of tourists, they accept that tourism has become has become an important element in its development strategy and they are now taking steps to increase the tourism spend while not disproportionately raising the numbers.

They want to encourage more off-season short-break and niche holidays. Various facilities such as the seafront at Lowestoft and visitor information are being improved.

Literature emphasising the cultural and heritage aspects of Suffolk is being targeted at foreign markets.

The main thrust of the current campaign to increase the county's tourist potential, however, are two booklets – one in French, the other in Dutch – aimed at attracting visitors from the Benelux countries. The car ferries from Zeebrugge arrive at Flexistowe in Suffolk. It is felt that there is a great untapped market here.

Stewart Dalby

BUSINESS AND THE ENVIRONMENT

Timber trade gets green credentials

By Peter Knight

Confusion over the environmental credentials of wood and wood products should be cleared up by 1995 if a new labelling initiative by the World Wide Fund for Nature (WWF) goes ahead.

This will come as a relief to wholesalers, retailers and consumers who are perplexed by the environmental issues surrounding the use of wood.

Choosing, for example, something as simple as a wooden door can be fraught with difficulties for those who must comply with a green buying policy. First they have to consider the merits of hardwood versus softwoods. Then they have to ascertain whether the chosen wood is from a sustainable forest.

The decision demands social, political, agricultural and ecological information, all of which is difficult and costly to get. The wood trade, no matter how honest, finds it almost impossible to guarantee the credibility of information it receives from suppliers.

Many merchants sell wood from supposedly sustainable sources, but WWF estimates that less than 1 per cent of tropical wood comes from forests managed in this way.

Consumers, according to market research, will pay a premium for the knowledge that they are not contributing to the destruction of the world's forests. "If we could prove that the wood came from sustainable sources then I have no doubt that people will buy it," says Alan Knight, environmental specialist at B&Q, a UK do-it-yourself chain.

Donald Dennis of Milland Fine Timber, based in Hampshire, is the sole distributor of wood supplied by the Ecological Trading Company, which gets some of its wood from forests managed under WWF schemes.

Dennis says his research shows that consumers will pay up to 25 per cent more for wood from a well-managed source. WWF is a little more cautious and estimates an acceptable premium to be nearly 14 per cent.

Part of the premium will be spent on the cost of labelling. The scheme will be developed by environmentalists working with the timber trade.

WWF, the Forests Forever Campaign and the Timber Trade Federation agreed a joint accord this September. And it looks likely that the Soil Association, the well-established organic agriculture organisation in the UK, will administer the scheme.

Part of the accord was a draft agreement on a wood and wood product purchasing policy. This is expected to be adopted at a meeting in December. The policy outlines five main points in the process of labelling wood. These are:

- Standards for good forest management.
- Independent monitoring to check that the standards are implemented.
- Tracing to check that timber actually comes from the source specified by merchants.
- Certification by an independent commercial organisation.
- Labelling for the consumer.

Each step of the process is either complicated or costly. There is much debate about what constitutes sustainable management and whether it is possible to achieve.

Certification demands a team of investigators to check the source of wood and its shipment via various merchants to its final destination. It will be necessary task if the scheme is to succeed.

"It will be small scale and allow the green consumer and investor to respond positively to those traders who are conforming. It should also give a competitive edge to the companies who use the scheme," says Francis Sullivan of WWF.

Knight is backing WWF because he says it is trying to find a solution. "The proposed scheme is the best we've got," he says.

Michael James of the Timber Trade Federation says his organisation would like to see responsible management of both tropical and temperate forests. "We welcome moves towards a labelling scheme as long as it is based on internationally agreed definitions of acceptable forest management," he says.

Dennis says WWF's scheme must be given time to develop. "It should succeed. Even if it leaks a little in the beginning, it's better to have some vessel rather than none."

Haig Simonian examines a proposal to transfer western technology to developing nations

Gap needs bridging

Giorgio Ruffolo: calls for global response to combat warming

The international environmental bandwagon rolling towards next June's world environment conference in Rio de Janeiro moved a few steps forward with an international symposium on energy issues in Milan last week.

Some 250 delegates from Europe, the US and many developing countries met at the offices of ENI, the Italian state-owned energy and chemicals group, to tackle the issues of environmentally sound energy technologies and their transfer to developing countries and European economies in transition.

The focus on energy has sharpened since research has showed that emissions of greenhouse gases from the production, distribution and use of energy, mostly from burning fossil fuels, are responsible for half the global contribution to the greenhouse effect.

The symposium was organised by ENEA, the Italian agency for new technologies, energy and the environment. It focused on the steps needed to limit the emission of "greenhouse" gases, and on measures to help transfer such technologies from the industrialised west to the third world and eastern Europe.

Until recently, the two concepts have tended to live apart. While concern about cutting emission of greenhouse gases, notably CO_2, has risen in the industrialised west, developing countries have often been more interested in expanding their own economies. "There is a formidable contradiction," notes Giorgio Ruffolo, the Italian environment minister.

Delegates stressed that such concerns should become common to both groups in order to prevent the environmental "mistakes" already made in the west being repeated elsewhere. "It is important that the transfer [of energy technologies to the developing world] not be a mechanical process repeating the history of industrialisation in the north," said Umberto Colombo, head of ENEA. Rather, the need to limit the greenhouse effect and contain the emission of harmful gases requires a "global response".

But that in turn needs money. It was left to Ruffolo to use the conference to launch a plan for killing the two birds with one stone. He proposed a "codicil" to the Commission's planned tax on non-renewable energy sources that would also help fund the transfer of technology to poorer countries.

Last year, EC industry and energy ministers agreed on a proposal to stabilise emissions of CO_2, widely seen as the main culprit behind the greenhouse effect, at 1990 levels in the year 2000.

To further that aim, the Commission has recommended an incremental tax from next January, which will start at \$3 for every unit of energy consumed equivalent to one barrel of oil, and rise annually to \$10 per barrel-equivalent by 2000. The proceeds from the 12 EC member states alone should reach around \$60bn a year and would finance research on saving energy, while also giving a variety of incentives to implementing energy-saving schemes.

'It is important that the transfer of technologies not be a mechanical process repeating the history of industrialisation in the north'

Ruffolo's proposal involves diverting 20-30 per cent of the proceeds to help countries in the developing world and eastern Europe use the latest environmentally-sound energy-saving technologies.

Ruffolo says his suggestion was received "cordially" by fellow EC environment ministers meeting earlier this month. It will be considered again at a meeting of EC environment and industry ministers in December.

Admittedly, not all governments, even in the EC, have warmed to the Commission's scheme, let alone Ruffolo's amendment. And with presidential elections looming next year, the US government is particularly uneasy with a scheme to limit CO_2 emissions.

The main concern in the EC is distortion to competition. While ministers may support raising money to finance energy-saving technologies, not all believe in doing so via an energy tax.

Under the Commission's plan, the levy would be raised on all non-renewable energy sources but have an additional component which would fall most heavily on combustible fuels like oil, gas and coal, reflecting their greater environmental damage.

Even Ruffolo's colleague, Giudo Bodrato, the Italian industry minister, observed that the scheme would only be acceptable if it covered all energy sources equally, rather than falling predominantly on oil, coal and gas.

Otherwise, according to Bodrato, countries like France, which have invested heavily nuclear energy, would gain an immense cost advantage over partners like Italy, where nuclear power has been banned and the bulk of electricity is generated from imported oil.

Ruffolo points out that countries like Germany and Japan, which are already considering special levies against polluting products or processes, also happen to be at the forefront of energy-saving and fuel-cleaning technology.

"It's a race in which whoever comes first will have a big advantage over the competition," he says. Already ENEL, Italy's electricity generating authority, is using German and Japanese technology to clean up its own power stations.

Like most big conferences, the Milan meeting produced more words than action. But the sponsors hope it might leave a small legacy. Ruffolo wants to set up a small Milan-based "clearing house" to specialise in information on environmentally-sound energy issues and their transfer to developing countries.

How the project will be financed remains unclear. Italian government funding is unlikely due to the current constraints on its purse strings. However, bankrolling a small institution in Milan may be more savvy in the longer term, given Italy's current drive to make Milan the site for the future European Community Environmental Agency. It may provide an extra push to clean the city's own, highly polluted, air as well.

Harvesting waste down on the farm

By Hilary de Boerr

Britain's beleaguered farmers are being offered large sums of money to diversify out of agriculture – by turning their fields into rubbish tips.

The phenomenon – called landraising – involves a farmer or landowner selling or leasing land which, for the next 20 years or so, becomes a rubbish dump.

Fields which were once full of crops or grazing animals are dug up to be filled with domestic and industrial waste, including dangerous substances such as asbestos.

When the site is filled with waste, it is covered and landscaped, and can supposedly be used again for grazing or crop growing. Nevertheless, for a further 20 to 30 years the area continues to produce methane gas, an acknowledged contributor to the greenhouse effect.

Waste disposal operators are offering thousands of pounds for such land, because of a dearth of available sites for waste disposal. Farmers are an obvious target, given the high debts and large tracts of land they often own. The price they could command for turning their land into landfill sites is far greater than what it might earn in agricultural use.

There is a snag, though, for anyone wishing to cash in on the latest "cash crop". While waste disposal company advertisements exhort interested farmers and landowners to get in touch, few sites actually comply with the strict regulations concerning landfill.

The more likely scenario is that a suitable site will be identified by the county council, whose job it is to ensure proper disposal of its local waste. The farmer or landowner is then presented with a fait accompli – sell or lease the land voluntarily or be forced to do so.

Somerset County Council operates eight such sites. Peter Daniel, marketing and development manager at the council's waste disposal department, says that at first farmers are not keen on their land becoming a rubbish dump. "Their first reaction is basically 'over my dead body'," he says.

If the council is unable to bring the farmer round to its way of thinking, the threat of a compulsory purchase order usually does the trick, he says. But the council has not yet had to serve an order.

The National Farmers Union says a farmer's debts – £250,000 is not uncommon – make it difficult to say refuse. "In this day and age it's regarded as a bit of a gift-horse," says Jack Ward, technical adviser at NFU South East.

County councils still face a battle when it comes to getting planning permission for their chosen landfill sites. Local communities do not want a tip in their backyard, and fight vigorously against them.

Such sites cannot be in areas of outstanding beauty or on high-grade agricultural land. They must be sited far from dwellings and be screened from sight. The road infrastructure must be able to cope with the traffic feeding the dump, and the geology of the land must be such that water is not polluted by the rotting waste.

The landraising term came about because the land is often left higher, if not an altogether different contour, when the process is complete. Ground soil is removed at the start, and landfill put into the depression. Most sites are at least 80 acres, and only part of the site is worked at one time, being re-covered with subsoil and topsoil when filled.

The site must be monitored for decades after returning to agricultural land. The environmental group Friends of the Earth claims that not enough is known about the decomposition process to ensure that such sites will be safe in the future. Waste disposal operators say strict regulations make landfill sites environmentally sound.

One farmer who has undertaken landraising dismisses fears that crops grown above landfill might be contaminated or of lesser quality. Bob Gagg, of Pinden End farm at Longfield, Dartford, devotes about one-eighth of his 160 acres to quarrying and landfill. As chalk is removed, it is replaced by waste from local building sites, factories and roadworks. He claims crops are already growing on his re-covered land with a higher yield potential than on land that has not been raised, because there is now soil where chalk used to be.

TELEVISION

Are documentaries in danger of becoming a rare species?

In the past few days ITV programme controllers have been debating a small scheduling change. On the surface it appeared to be such a tiny, reasonable thing that it seems scarcely worth mentioning. From January Thames Television wanted to move its weekly current affairs programme, *This Week*, from 8.30pm on Thursday to 7.30pm. Only addictive readers of the programme schedules in *TV Times* or *Radio Times* would notice such a modest change that would have the entirely beneficial side effect of making serious current affairs available to more young children before they go to bed.

In fact the proposal raises some serious questions. In the wake of the ridiculous auctioning of ITV franchises and the growing financial pressures on the BBC, what sort of television is the UK going too have? And what are the chances that current affairs and documentary programme makers will not only get the money to take on difficult subjects, but will have access to attractive slots where they stand a chance of getting a decent audience?

Tomorrow night *This Week* will screen "Every Mother's Nightmare", an investigation of infant cot deaths with Anne Diamond, a television presenter who lost her baby son. In the best traditions of popular current affairs, the programme goes far beyond the tragedy of a well known television personality and reports on how New Zealand, once the cot death capital of the world, has cut its death rate by half. The programme asks why the British Government, while knowing of the New Zealand success, has failed to tell Britain's mothers. Last week the programme dealt with euthanasia, and earlier this month there was a world exclusive – access to a Soviet nuclear bunker and the men who might, in the bad old days, have had the responsibility of dispatching nuclear warheads to London. And to declare an interest, earlier this year I was given the freedom as a reporter to say on Thames Television that the company was one of the most likely to lose its franchise in this month's competitive tenders.

As a result of Thames being outbid by Carlton Television, *This Week* will fade from the screens in just over a year's time. But before that it may suffer the indignity of that cynical move from 8.30pm to 7.30pm. It is a move that could cost it much of an audience which has been averaging nearly 5m.

The significance of 7.30pm is that *EastEnders*, the BBC soap, goes out then. This often attracts an audience of 14m and is second only to *Coronation Street* in popularity. In that time slot ITV is left with crumbs. The purpose of the manoeuvre is to dump a current affairs programme, that by its nature will never be able to compete in the ratings with comedy or general entertainment, in a graveyard slot and free 8.30pm for a seriously commercial programme. In the pre-franchise world a measure of protection was given to current affairs. Those days could be about to end.

On this occasion the proposal to move *This Week* was blocked by HTV and Scottish but the issue is likely to be brought up again in the spring.There is not even any guarantee that *This Week* will be replaced. Carlton Television is putting forward a programme with the working title of *Seven Days*, to be made by the company that produced *20:20 Vision* for Channel 4. Paul Jackson, the company's director of programmes, insists that *Seven Days* was not just in the franchise application to get brownie points, and is adamant it will be properly funded for national and international coverage. It is not clear whether the funding will amount to the £4m a year spent by Thames on *This Week*.

Some ITV managing directors are already suggesting that maybe one current affairs programme a week in prime time would be quite sufficient, and that that should be Granada's *World in Action*. But it is not for them to decide: in future everyone will pitch their ideas to a new central scheduler, quite probably Charles Denton, chief executive of an independent production company, Zenith. Whoever gets the job will face enormous pressures to come up with a highly commercial schedule to fund the extra sums of money the ITV companies must pay to the Treasury in future as a result of the tenders.

Some programme executives – such as Richard Creasey of Central, a company that bid just £2000 to retain its franchise – have expressed optimism about the future of the documentary on ITV. We shall see.

Even though the BBC so far has not been through the trauma experienced by ITV – although it would be optimistic to imagine that the Government will learn from the ITV debacle – serious factual programmes are under considerable pressure. The world famous BBC wild life unit in Bristol, for example, has faced 5 per cent budget cuts a year, with 5 per cent staff cuts on top. Andrew Neal, head of the unit, like many other documentary makers, is becoming increasingly dependent on co-production funds from abroad as costs continue to rise and budgets are stretched. Animals go down very well, as do more general nature programmes. A series on Antartica planned for the end of 1993 has been funded, despite a cost of £1.5m. Richard Attenborough on plants is no problem at all. A controversial series on the politics of nuclear power is quite another matter.

BBC 2 is currently screening an important series on *The Second Russian Revolution* on Saturday evenings. It is indeed, as Colin Cameron, the head of documentaries responsible insists, of considerable historic value. The audiences have been "dreadful": only around 500,000. "There is no doubt that it was absolutely the right thing to have done," says Cameron, now head of television in BBC Scotland.

There have to be question marks over the future of such magnificent ratings disasters when the competition is not just satellite television and ITV, but Channel 4 – which is looking to raise its own advertising revenue in the marketplace. Already the channel is not too proud to screen audience-pulling repeats of ITV hits such as *Inspector Morse*. But in the field of current affairs and documentaries, Channel 4 could turn out to be the wild card. David Lloyd, the commissioning editor for current affairs, is prepared to spend some money experimenting on new forms. He has identified the BBC as a soft target where the theories of a more analytical journalism associated with John Birt, the director general designate, have taken the life out of BBC current affairs. A framework of analysis has been artificially imposed on a narrative story-telling tradition, producing a rather sullen, scoreless draw. "The jury is no longer out on the changes at the BBC. The jury has returned and the verdict is that the BBC is not producing programmes that fizz and crackle," says David Lloyd.

Lloyd's search for fizz has led him to launch *4-Thought*, a project that amounts to a competition to find new ways of presenting current affairs on television. Four companies have each been given funding – around £86,000 an hour – to elaborate new ways of presenting analysis. The programmes, to be shown next month, will include "The Big Picture Show", which unleashes three investigators to look at the housing issue from economic, social and political perspectives. There will also be "The Knowledge", in which three reporters will use a magazine format to "throw new light on a major issue by asking a key pertinent question." A new attempt to bring serious current affairs back into the centre of prime time British television? Hardly. *4-Thought* will be transmitted at 11pm on Mondays, when most honest citizens are heading for bed.

Raymond Snoddy

It's Ralph

COMEDY THEATRE

The story of how this play came by its name is just the sort of googly its title character would bowl a select gathering of one-time friends who hadn't the foggiest idea where they were supposed to have met him.

Ralph Gallup was the name assumed by Hugh Whitemore when he was so appalled by the film adaptation of his play, *Pack of Lies*, that he could not bring himself to put his real name to it. It went on to win him a pseudonymous Emmy nomination.

Appropriately, the Ralph of Whitemore's latest comedy is a hapless soul to whom extraordinary things happen without purpose, or logic, or any of the other qualities most of us pursue in life. Things like trollism in a hotel bedroom with a brother and sister, or losing both parents and his wife in the same road smash.

In his gentle way, Ralph provides a rather profound reflection of the theatre tradition to which he belongs: amusing, touching and mildly perceptive, without being in any way demanding or memorable.

The setting is the country retreat of a bombastic television personality (Timothy West) and his elegant American wife (Connie Booth). Arriving uninvited, apparently to reclaim old acquaintance, Ralph finds himself showered with cash and confidences, to which – in Jack Shepherd's beautifully restrained performance – he reacts with a blinking innocence.

In a first act of four scenes set over three days, Whitemore dangles a series of possible points to the comedy. One minute it seems to be shaping into a lament of lost ideals (the appalling Andrew was once a man of conscience, who demonstrated against the bomb); the next, it appears to be developing into a blackmail mystery. With a gleeful perversity, Whitemore allows these leads to disappear into a fuzz of situation comedy.

Timothy West, tetchy, pedantic, gets all the best lines, leaving to Shepherd the bizarre scenarios, recounted in an anti-dramatic monotone.

Only well into the second act does it become clear that that this is a play about middle-aged loss of faith – in life, in love and in the possibility of goodness or happiness. The aimlessness of Ralph's life – and death – brings Andrew and Claire face to face with the holes in their own carefully constructed universe. "It is lies and delusions that make life tolerable," says Andrew, in a sudden burst of recognition, while Booth's lovely Claire is rather embarrassingly left yearning for the innocent belief of a little girl.

One might be tempted to dismiss the whole thing with a big "so what?" were it not for the strength of the performances, under Clifford Williams' direction, and Whitemore's ear for the cadences of despair in all its absurd inconsequence.

Claire Armitstead

Alastair Muir

Jack Shepherd and Timothy West

Comic operas at the Wexford Festival

After the dark drama of its Donizetti rarity on the opening night the Wexford Festival moved on to lighter fare for its other two operas. The Theatre Royal is an ideal venue for the sort of intimate comedies that most opera-houses shun, so Wexford gets a virtually free hand to choose from the many pieces in this area of the repertoire waiting to be revived.

The stronger of the two this year was a Shakespearian comedy. The German composer Hermann Goetz left only a handful of major works before tuberculosis carried him off at the age of 35. The best-known is his opera *Der Widerspenstigen Zähmung*, adapted from *The Taming of the Shrew*, and if this is looked upon as an apprentice work, then it seems likely that he would have lived to become a master opera composer.

In Wexford's production the piece felt too long, though for that Goetz might reasonably claim circumstances beyond his control. His music certainly has a lovely lyrical warmth and it is difficult to believe that the young composer would have set the words in the way he did or found the same harmonies if he had not thoroughly absorbed the early Wagner music dramas. At times the National Symphony Orchestra under Oliver von Dohnanyi found an almost *Meistersinger* glow to the score.

It is unfortunately not easy to feel the same affection for John Lloyd Davies' production. The staging was determined that the opera should make big statements about womanhood. All the wives were dragged around on leads like pet dogs by their owner-husbands. The viperous Katherina, played with some temperament by Marit Sauramo, was given a passion for bananas and unattractive modern art: while her younger sister Bianca, the attractive Zsuzsanna Csonka, became a retarded dolly bird still in love with her teddy.

As characters, the men, including William Parcher's sturdily virile Petruchio and two native German speakers in Wolfgang Babl's Baptista and Peter-Christoph Runge's Hortensio, came off more lightly. But even they were caught up in the producer's rigorous comic routines, the sort of humour that never taps you on the shoulder when it can slap you on the back. There may be people for whom this aggressive style of production is invigorating. I found it merely relentless and exhaustingly unfunny.

In retrospect, the companion production of Gluck's *La Rencontre imprévue* went as far as it was able with taste and tact. This slight *opéra comique* was popular in its time and might win more friends today if it did not so directly invite comparisons with Mozart's *Die Entführung aus dem Serail*, which takes an oriental story of very similar ingredients and brings to it both a sharper wit and a deeper understanding of human character.

It is all too easy for a producer to try to help Gluck out by coming up with a few gags of his own. By the third act Jamie Hayes and his designer Ruari Murchison had given way fairly completely to temptation and the opera turned into a bit of a romp, with traders offering tourists miniature pyramids for sale and guided tours setting off for Mecca. But there were reasonably generous stretches of the evening in which Gluck was left to speak for himself.

The central act, in which the hero Ali is tempted by girls of the harem before he is allowed to see his loved one, offered a delightful series of short musical numbers, each shaped with delicacy by Richard Hickox in the pit. The Egyptian belly-dancers with their lily-white midriffs, restricted to hopping up and down on the spot by Wexford's small stage, were not perhaps a good idea. But there was some decent singing from Paul Austin Kelly's rather reedy Ali and the two comic characters played by Christopher Hux and Richard Crist.

Best of all, when the long-awaited Rezia finally appeared, unalloyed pleasure was in store. For the American soprano Janet Williams not only sang her music with a delectably natural and beautiful soprano voice, she also has musicality to spare. She is a Wexford "find", of exactly the kind that makes visits to this festival so worthwhile.

Richard Fairman

Seal

HAMMERSMITH ODEON

Its an obvious nonsense when the turn of a decade persuades the world that different values, different attitudes have somehow taken hold. It stops being a nonsense when people believe it. If a major record company had sat down and decided to produce a star to take advantage of the "caring" nineties it would have designed Seal. It says much for the man's personality that he comes across as his own creation.

Until now Seal has been a sound, the voice behind two mega hits in *Killer* and *Crazy*, but never seen in public. He is currently on his first tour and everyone at Hammersmith seemed to be having a good time. Seal-Henri Samuel claims a Brazilian father, a Nigerian mother, 28 years, and dreadlocks, but his accent is aggressively north London and his vocals blisteringly powerful.

He plays with images – black leather frock coats, silken white shirts, the occasional Jaggeresque strut – but has enough presence to avoid caricature. There is an initial moment of aggression when he tears down the drapes which hide the band but from then on he serves music and global harmonisation.

And serves it in an oddly comprehensive way. His lyrics are attractively positive – "we will find a way" – "hold on to love" – and, in his major seller, "we are never going to survive unless we get together". But although this may sound like vacuous soul platitudes Seal has a physical dominance, a vocal conviction, and a no nonsense band to give it meaning. He may have left behind the mindless acid house thump of *Killer* but it has given his anthems to universal toleration the necessary bite.

The set is simple but effective – a rake pinning down on high keyboards and drums while down below the short suited bassist can do AC/DC imitations and the guitarist impersonate Hendrix, not least in a powerful version of *Hey, Joe*. Against strident lighting Seal does his stuff. It might lack sweat, it might swing bewilderingly from Sade style ballads to Terence Trent D'Arby contortions, but it all seemed perfectly in tune with the times.

Antony Thorncroft

B.B. King

ROYAL ALBERT HALL

Suffrin' music has changed a bit since B.B. King was on the road 342 days of the year. On Monday, he sang earnestly, "I've a good mind to give up living and go shopping instead". But then this is Kensington Gore and a long way from the chittlin' circuit, whence he came.

The Pepticon Kid, *aka* Blues Boy King, the King of the Blues and for tonight at least, the Kenco Kid, drew an adoring multitude which popped champagne corks from the red velvet boxes of the Albert Hall as he took to the stage for the second part of an "all-star" evening. He was barely into "Let the good times roll" before the thirtysomethings, brought up on B.B. King acolytes like Eric Clapton, were loosening their ties and cuffs and beginning to gyrate. The fiftysomethings, meanwhile, who had come to see Gene Harris and his All-Stars were quietly drifting away.

An evening of three parts – the Gene Harris big band and singer Dianne Reeves building up to B.B. King with his Lucille (the guitar), it seemed to reach the beginning of the end to soon.

Gene Harris's all-star line up includes, among others, the tough tenors of James Moody and Ralph Moore, the mellow guitar of Kenny Burrell (himself capable of "Chittlins con Carne"/ "Wavy Gravy" type-blues), and 75 year old Harry "Sweets" Edison on beautifully muted and restrained trumpet. All this is sprung by the bass of Ray Brown and lubricated by the dark brown contralto of Dianne Reeves.

So delicate was Reeve's duet with Burrell on acoustic, her swinging with Brown and so vigorously seductive her "Love for Sale", that it was hard to imagine B.B. King adding anything to the evening. But he came and conquered, in gold Lurex DJ, Lucille resting on his cummerbund, and his ringed fingers flashing gold as they wrung out those trademark blue sustained notes.

Once you accept that the orchestra has dropped a gear to blues from their well drilled swing, and that B.B. is the genuine voice of the music with a guitar sound that influenced the next generation of players, less can be more. More or less: for before we had got used to him fronting the orchestra, encores were underway and "the thrill had gone".

Garry Booth

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

BERLIN

Staatsoper unter den Linden 19.30 Choreographies by Balanchine, William Forsythe and Marc Bogaerts, repeated on Sun. Tomorrow: Die Fledermaus. Fri: Falstaff. Sat: Tristan und Isolde (East Berlin 2004 762)
Komische Oper 19.00 Rolf Reuter conducts Harry Kupfer's production of Don Giovanni, with Roger Smeets in the title role, also Fri. Tomorrow: Bizet's Doctor Miracle. Sat: Swan Lake. Sun: Der Freischütz (East Berlin 2292 555)
Deutsche Oper 20.00 Il barbiere di Siviglia, also Sat. Tomorrow: Simon Estes in Der fliegende Hollander (West Berlin 3410 249)
Schauspielhaus 20.00 James Levine conducts the Berlin Philharmonic Orchestra in Strauss' Metamorphosen and Sibelius' Second Symphony (East Berlin 2272 261)
Philharmonie Kammermusiksaal 20.00 Piano recital by Shura Cherkassky (West Berlin 2614 383)

FLORENCE

Teatro Communale 20.30 Georges Prêtre *conducts the Orchestra of the Teatro Communale in* Respighi's The Fountains of Rome, a suite from Der Rosenkavalier, Debussy's Nocturnes and Ravel's Bolero. Repeated tomorrow (277 9236)
Teatro della Compagnia *20.30 Ballet gala presented by* MaggioDanza, with extracts from classical ballets. Runs till Nov 15, *with next performances tomorrow* and Sat (277 9236)

FRANKFURT

Alte Oper 20.00 Yuri Bashmet directs the Moscow Soloists in Bach's Brandenburg Concerto No 6, Schnittke's Monologue for Viola and Strings, and Mahler's arrangement of Beethoven's String Quartet in F minor op 95. Fri: Blues Night with special guest Angela Brown. Sat: Tony Sheridan and Band. Sun: piano recital by Olga Dudnik (1340 400)
Opernhaus 19.30 Silvio Varviso conducts Axel Corti's production of La traviata, updated to the Vichy era, with Ana Felicia Filip as Violetta, Dino di Domenico as Alfredo and David Pittman-Jennings as Germont, also Sun. Tomorrow and Sat: Eugene Onegin with Helena Doese as Tatiana and Hans-Peter Blochwitz as Lensky. Fri: choreographies by Balanchine and William Forsythe (236061)
Jahrhunderthalle Hoechst On Friday, Yehudi Menuhin conducts the Berlin Staatskapelle in symphonies by Mozart and Beethoven, with Jeremy Menuhin soloist in Mozart's Piano Concerto No 9 (3601 240)
English Theater Kaiserstrasse 20.00 Somerset Maugham's play *The Constant Wife* directed by Martin Harvey, daily except Mon till Nov 16 (242 3160)

GOTHENBURG

Konserthus 19.30 Vaclav Neumann *conducts the Gothenburg* Symphony Orchestra and Chorus in Dvorak's Stabat Mater, repeated tomorrow (167000)

LONDON

Coliseum 19.00 First night of Graham Vick's new ENO production of Le nozze di Figaro, conducted by Paul Daniel. The cast includes Bryn Terfel as Figaro, Cathryn Pope as Susanna, Joan Rodgers as the Countess and Anthony Michaels-Morre as the Count. Runs till Dec 19, with next performances on Sat and next Tues (071-836 3161)
Royal Festival Hall 19.30 Luciano Berio conducts the Philharmonia Orchestra in a programme of his own music and arrangements of Brahms and Mahler, with Thomas Hampson baritone and Michael Collins clarinet. Tomorrow: Ashkenazy conducts the RPO (071-928 8800)
Barbican 19.45 Jeffrey Tate conducts the English Chamber Orchestra in a Mozart programme including arias sung by Cecilia Bartoli and the Piano Concerto No 25 played by Andras Schiff. Tomorrow: Paavo Berglund conducts the LSO (071-638 8891)

NEW YORK

THEATRE
● Dancing at Lughnasa: Brian Friel's 1991 Olivier Award-winning drama, set in Donegal in 1936, focuses on five unmarried sisters and their ailing missionary brother, who make up a household rife with sexual repression, resentment and *occasional high humour. Directed* by Patrick Mason. The *original* Dublin Abbey Theatre cast will play the first 20 weeks of the run (*Plymouth Theater, 236 West 45th* St, 239 6200)
● The Homecoming: Lindsay Crouse and Roy Dotrice star in *a revival of Harold Pinter's play,* in which an attractive woman visits an all-male eccentric household and sets *off* a chain reaction of sexual intrigue and games of one-upmanship. Directed by Gordon Edelstein (Roundabout Theater's Criterion Center, Broadway at 45th St, 869 8400)
● Nick & Nora: Barry Bostwick and Joanna Gleason star in a musical murder mystery set in Hollywood in 1937, and based on characters created by Dashiell Hammett in The Thin Man. Book and direction by Arthur Laurents, music by Charles Strouse, lyrics by Richard Maltby (Marquis Theater, 1535 Broadway at 45th St, 382 0100)
● Futz: a revival of Rochelle Owens' play, directed by Tom O'Horgan, dealing with violence and intolerance in America, and built on the love story of a reclusive farmer for his sow. Last performances tonight, tomorrow, Fri, Sat and Sun (La MaMa, E.T.C, Annex Theater, 74a East 4th St, 475 7710)
● Cabaret Verboten: a show created by Jeremy Lawrence telling the true story of some of the extraordinary talents from Germany between the wars, forced to give up their work or join the Nazis (CSC Theater, 136 East 13th St, 677 4210)
● The Trojan Women: Euripides' passionate attack on the savagery of war, *translated by Richmond Larrimore and directed by Shepard* Sobel. Runs till Dec 7 (Pearl Theater Repertory, 125 West 22nd St, 645 7290)
● *Ticketron answers inquiries* and sells tickets (246 0102)

MUSIC
Metropolitan Opera 20.00 Julius *Rudel conducts Die Zauberflöte,* with a cast including Jerry Hadley, Hakan Hagegard and Hans Sotin, *also Sat. Tomorrow:* Aida (362 6000)
New York State Theater 20.00 Guido Ajmone-Marsan conducts Nicholas Muni's production of La traviata, with Gail Dobish as Violetta. Tomorrow: Tosca (870 5570)

PARIS

MUSIC AND DANCE
Palais Garnier 19.30 Martha Graham Dance Company opens a five-day Paris season with four choreographies by the company's founder. Runs till Sun (4017 3535)
Opéra Bastille 20.30 Arditti Quartet plays string quartets by Bruno Maderna, Luciano Berio, Iannis Xenakis and Philippe Fenelon (4296 9694)
Théâtre des Champs-Elysées 20.30 Eugene Istomin plays Beethoven piano sonatas. Tomorrow: Neville Marriner conducts Haydn, Hummel and Dvorak (4720 3637)
Théâtre de la Ville 18.00 Paris International Jazz Festival: Martial Solal piano and Toots Thielemans harmonica, followed at 20.30 by the guitarist Bill Frisell and the Egberto Gismonti Group. Tomorrow: Ray Anderson trombone (4274 2277)

THEATRE
Théâtre National de la Colline Jorge Lavelli's two-part Avignon Festival production of Comédies Barbares, based on three works by the Spanish writer Ramon del Valle-Inclan. The production can *either be seen in one six-hour* performance, or on two separate evenings. Runs till Jan 19 (15 rue Malte-Brun, 20e. 4366 4360)
Théâtre de la Tempete Paul Claudel's L'annonce faite à Marie (The Tidings Brought to Mary, 1912), a peasant family drama of frustration and jealousy. Daily except Mon and Tues (Rte du Champ-de-Manoeuvre, 12e. 4328 3636)
Comédie Française The repertory currently includes Marivaux's comedy La fausse suivante and Racine's classical tragedy Iphigénie, in a new production by the Greek director and designer Yannis Kokkos (4015 0015)
Odeon Théâtre de l'Europe Le Temps et la Chambre: Botho Strauss' play is directed by Patrice Chéreau. Runs till Dec 15 (4325 7032)

VIENNA

Staatsoper 19.00 Vaclav Neumann conducts Rusalka, with Gabriela Benackova in the title role and Rebecca Blankenship as the Foreign Princess. Tomorrow: Il barbiere di Siviglia (51444 2960)
Musikverein 19.30 Marjana Lipovsek, accompanied by Geoffrey Parsons, sings Lieder by Schubert and Brahms. Tomorrow: Artis Quartet plays string quartets by Haydn, Mendelssohn and others. In the Grosser Saal tonight and tomorrow, Peter Keuschnig conducts music by Gershwin (505 8190)

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1230-1300 Business Morning
1330-1400 Business Day
2000-2030 World Business Today – a joint FT/CNN production with a review of business stories
2300-2330 World Business Today
0100-0130 Moneyline

Superchannel
2130-2200 (Tues) East Europe Report – weekly financial report from FTTV.
2130-2200 (Wed) FT Business Weekly - the latest round-up of business news with James Bellini and Debbie Middleton.
2130-2200 (Thurs) Talking Heads

Sky News
1200 International Business Report
1130, 1730, 2130, 0430, 0530 (Thurs) FT Business Weekly

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0900-0930 World Business This Week - a joint FT/CNN production
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1900-1930 World Business This Week
2110-2140 Your Money

SUNDAY

Superchannel
1800-1830 FT Business Weekly

Sky News
1330, 1630, 2030, 0030, 0230 FT Business Weekly

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0710-0740 Moneyweek
1340-1400 Inside business
1540-1610 Your Money
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FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Wednesday October 30 1991

A sensible draft on Emu

THE DUTCH have put forward a draft treaty on economic and monetary union in the European Community that deserves to be accepted by the European Council in December. With one major exception, its provisions on fiscal policy, the Emu it defines is the only sort worth having. Its provisions on the transition – a judicious blend of a timetable with requirements for convergence – are no less commendable. They would allow no country to force its way in, but would make it impossible for any to be forced in either.

This should, in short, be the treaty of Mr Major's dreams. Protests about the proposed declaration of intent to join gives him a chance to satisfy his party critics and still sign the treaty.

The draft reflects most fully the position of Germany, the one country that has to be in any Emu. The proposed European Central Bank is, therefore, a super Bundesbank. Each of its constituent national banks is to be independent from its national government, while the ECB itself is to have the primary objective of price stability. With its independence protected by the treaty, the ECB is bound to emerge as the most potent economic institution in Europe.

If this Achilles has a vulnerable heel it is in exchange rate policy. The Council may, after consulting with the ECB, determine an exchange rate arrangement *vis-à-vis* other currencies or "formulate broad guidelines for exchange rate policy". Either way the objective of price stability could be undermined. The draft treaty tries to preclude this possibility, but the risk cannot be eliminated.

Arbitrary criteria

Yet the biggest difficulty lies elsewhere, in the proposals for control over member state fiscal policies. It is not that fiscal policy is irrelevant. It is rather that any criteria – including the suggestions that deficits of general government should not exceed 3 per cent and that public debt should not exceed 60 per cent of gross national product – are arbitrary. Just how arbitrary they are is easily demonstrated: only France, Luxembourg, Spain and the UK now meet them.

To impose sanctions on member countries which fail to meet these criteria would threaten serious internal conflict; to impose them inconsistently would bring the treaty into disrepute; not to impose them at all would render it ridiculous. But the proposed rules are not merely arbitrary. They would require member states to increase their control over subordinate levels of government, something directly opposed to the EC's vaunted principle of "subsidiarity".

Appropriate element

Control over fiscal policy should not be a permanent element of Emu, but it is an appropriate element in the requirements for convergence prior to Emu. These requirements are the fee to be paid for membership. The willingness to pay the fee is the best single indication that the electorates of potential members are prepared to accept the rules. This is why a process of convergence that is both lengthy and tough is essential.

It is a consequence of the need for convergence that whether the final move to Emu will occur remains uncertain. Under the current draft treaty, seven member states need to meet tough conditions on inflation, fiscal policy, exchange rate stability and interest rates by the end of 1996, before Emu may proceed. Countries that fail the conditions would have a derogation; those that do not wish to join would have an exemption. The former would be excluded; the latter could exclude themselves. The UK gets what it wants, while Italy faces a severe test of its commitment to the EC.

The EC now has a draft treaty that gives a good chance of a successful Emu. But it should not assume that agreeing that treaty guarantees either Emu itself or success with it. The former depends on convergence, but the latter depends on how the EC's economies evolve. If an EC that lacks substantial internal fiscal transfers or large scale internal migration is to make a success of Emu, then both real and nominal wage flexibility will be essential. This fundamental point is in great danger of being forgotten. Everyone involved should remember it before it is too late.

Making public spending pay

THE CHANCELLOR looks set to announce a public sector borrowing requirement for 1992-93 of about £20bn in his autumn statement next month – overshooting his spring target by some £8bn. In part this reflects the unexpected severity of the recession. But it also marks a rise in pre-election discretionary spending which, if directed towards well-judged investment in shabby public services, is no bad thing.

The bulk of the overshoot in spending is unavoidable expenditure, mainly the cost of benefits caused by higher-than-forecast unemployment. Even here, there is scope to reduce the cost of benefits in the future by investing in a more efficient labour market. The Employment Institute has recently advocated measures which would reduce numbers on benefit by half a million over five years, at a cost of £580m in the first year, rising to £1.52bn by year three – but savings would outweigh costs from the fourth year.

Another strong candidate for additional investment is transport. More efficient railways and new light rail systems could significantly ease urban traffic congestion. Although the user-must-pay principle is sound, significant improvements can only be stimulated by public investment.

The investment case for more health spending is less clear, though there is probably public support for a rise in UK health spending from the current 5.8 per cent of GDP towards the OECD average of 7.6 per cent. The Patients' Charter, which is to be launched today, will set the maximum wait for most operations at two years and compel health authorities to publish waiting times. Such openness is commendable, but it will feed the appetite for better services.

Health care

But raising the quality of health care depends at least as much on ensuring that the money is well spent – the objective of the government's NHS reforms. For this reason, funds should be found to ease the passage of the reforms, for example to minimise the ward closures which surface each spring at the end of the NHS financial year. And topping up extra-contractual referrals budgets could ensure that patients are not turned away from hospitals because their health authority has not contracted for their services.

Local government

One other significant bidder for additional spending will be local government, with the Treasury grant for next year set in the summer at £33bn. This is 7.2 per cent above the level of spending the government set for this year – well above the rate of inflation, as environment ministers have pointed out. However, the settlement is less than 5 per cent over what local authorities *actually* spent in the current year, dangerously close to the inflation rate. Ministers responsible for services such as education, social services, policing and fire brigades are already grumbling that there is not enough in the pot to cover existing commitments. If teachers win substantial rises from their new independent pay review body, councils may be unable to fund the increases.

Added to these cost pressures are the political strains imposed by the final year of the poll tax. Councils suspect that voters blame the government for poll tax bills and therefore have little incentive to trim costs (they recently agreed an inflationary 6.4 per cent increase for manual workers, for example). If the government is to avoid another wave of resentment when poll tax demands drop through letterboxes in the spring, however, additional funds must be found – the price of past errors in local government.

It will be little comfort to ministers still haggling over the details of the autumn statement that many of these pressures arise from years of neglect of public services. The refusal of either party to countenance tax increases, however, means that reversing the neglect can only be a long-term process – whatever they may promise.

Agreement by Madrid's co-sponsors offers the best hope of a Middle East settlement, writes **Roger Matthews**

Maybe the last chance

The Middle East peace conference in Madrid opens today against a background of broad international agreement. Mr George Bush and Mr Mikhail Gorbachev, presidents of the world's two most militarily powerful nations and co-sponsors of the conference, together with the European Community, virtually every other member of the United Nations, and no few Israelis, accept what the general lines of a settlement should be.

They all believe that in principle Israel should be prepared to withdraw from most of the West Bank, Gaza, and Golan Heights which it occupied in the 1967 war, and from the strip of southern Lebanon it has controlled since 1982. In return the Arab countries are required to recognise Israel and to accept fully its right to live in peace behind secure and agreed borders. The principles are set out in UN Security Council resolutions 242 and 338, of which much will be heard in the weeks ahead.

How to achieve this objective, while ensuring Israel's security is not jeopardised and the Palestinians' desire to decide their own future in the West Bank and Gaza is answered, is what the Madrid conference and subsequent negotiations should be about.

For many days ahead it is unlikely to seem like that. It is a measure of the violence, intolerance and emotion linked to this tiny, largely barren, sliver of the Middle East that just getting the parties to the conflict sitting around the same table is hailed as a considerable achievement. But in the longer term the commitment of the co-sponsors of the peace process will count for more than the predictably depressing initial negotiating positions of some participants.

The key to longer-term optimism is the changes in motivation and circumstances which have brought the delegations to Spain. The Arab participants, apart from Egypt, are there because politically they are close to the floor and because the rules of the Middle East have altered so radically that they see no other option.

The Soviet Union is there because of what has happened within the Soviet Union. The US, as the world's only superpower, has in Madrid a chance for the first time to lay long-term foundations for a Middle East that responds to both its security and economic needs. The Israeli government has come to Madrid primarily, perhaps only, because America wants it there.

The violent past 12 months in the Middle East and President Saddam Hussein's ambitions have provided the catalyst. At one level recent events brought the Arab world to its lowest ebb for many years. Arab fought Arab in a Gulf war comprehensively decided by the military might of the US and the western alliance, with heavy loss of Arab life.

But, most of all, it was the co-operation between the Soviet Union and the US to defeat Iraq, the Arab world's single most powerful military machine opposed to Israel, which finally hammered home the lesson that the disputed Palestinian territories would never be recovered by force. Other routes to Palestinian self-determination would have to be found. The days of Arab leaders seeking to dominate the Middle East stage with ever more bloodcurdling pledges to the Palestinian cause are gone. Gone too are the days when Opec meetings were to be feared and oil was heading towards $60 a barrel.

Some diplomats believe the conference will be seen as the moment Israel's influence passed its peak

A glance at the Arab delegations in Madrid underlines how politically enfeebled they have become. Syria's decision to attend was critical. For 20 years President Hafez al-Assad had made his unwavering commitment to Arab nationalism, Palestinian rights, and the restoration of the Golan Heights, the cornerstone of his regional political appeal. The credibility of his programme rested heavily on Syria's treaty of friendship and co-operation with the Soviet Union. Moscow provided both Syria's aggressive capacity and its political and military defence against Israel. Today it scarcely does either.

Mr Yassir Arafat and the Palestine Liberation Organisation lost their far more limited military capacity when Israel occupied much of Lebanon in 1982. Buffeted successively by Arab regimes over more than two decades, the inadequacy of the PLO leadership helped provoke the sustained Palestinian uprising which erupted in the occupied territories at the end of 1987.

Whatever the failures of the PLO, the people in the West Bank and Gaza have made all too clear their detestation of living under Israeli control, although their instinctive support for Iraq's occupation of Kuwait and attacks on Israel later undermined their demands for additional international support.

King Hussein of Jordan, sensing similar emotions within his own population, also tested western friendships by his ambivalence towards Iraq but emerged domestically secure. He and the Egyptians are the Arabs most practised at talking to Israelis and have everything to gain from progress at the conference.

The only progress Israel, officially, wants to see is the Arab delegations accepting peace in return for just that – peace. Mr Yitzhak Shamir, Israel's prime minister, insists there is nothing else on the table, least of all a square centimetre of occupied territory.

Israel's self-confidence is understandable. Its achievements in the past 20 years are astonishing. It has gained total conventional military superiority over any combination of Arab countries. At the same time it has not been deterred from building up a sizeable nuclear arsenal and has the capacity to hit targets well beyond the Middle East. Israel's overall destructive capacity may be exceeded only by that of the five permanent members of the Security Council.

While racing ahead militarily, Israel has not softened diplomatically. For a nation of 4m people whose European-style standard of living is heavily dependent on foreign aid, Israel has not wavered in its rejection of UN resolutions and international opinion. A prime example is the building of Jewish villages and towns in the territory it occupied in 1967.

For more than 15 years the US, on which Israel depends so crucially, has demanded an end to a building programme obviously designed to perpetuate the occupation. Not only has Israel always refused, but it has continued to announce the start of new settlements at moments seemingly designed to cause maximum provocation to people such as Mr James Baker, the US secretary of state, who paid eight visits to the region in as many months to set up the conference.

The requirement for such commitment from Mr Baker reflects the absence of any other peace broker acceptable to Israel. The newly-resurgent UN, which this year played such a central role in resolving the occupation of Kuwait and is now charged with supervising the political reconstruction of Cambodia, has been denied a substantive part in the Middle East peace process by Israel. In Madrid the world body is reduced to observer status. The Palestinians, whose future is supposed to be at the core of the conference, have not been permitted by Israel to choose as part of its delegation anyone who admits publicly to PLO membership, or comes from east Jerusalem.

Despite this, some western diplomats close to the peace process believe the Madrid conference will come to be seen as the moment when Israel's influence passed its peak. Certainly some Israelis have begun to fear that is the intention of Messrs Bush and Baker. At the very least, Madrid looks set to mark the first serious re-examination of the US-Israel relationship for more than 25 years.

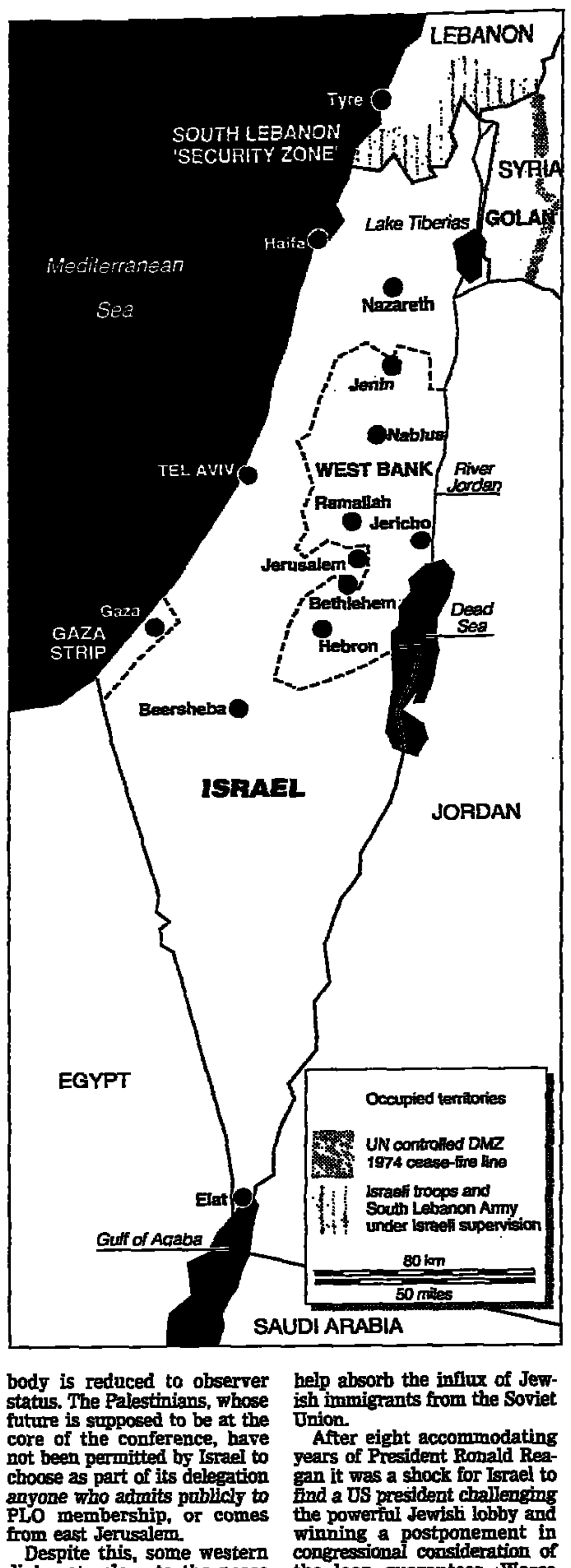
Iran's military exhaustion, the crushing of Iraq and the extraordinary events in eastern Europe and the Soviet Union have left the US pre-eminent in the Middle East. The first clear evidence that Mr Shamir had not adjusted to the post-war ambitions of Mr Bush was provided by the row over Israel's application for $10bn in US loan guarantees required to help absorb the influx of Jewish immigrants from the Soviet Union.

After eight accommodating years of President Ronald Reagan it was a shock for Israel to find a US president challenging the powerful Jewish lobby and winning a postponement in congressional consideration of the loan guarantees. Worse still, some Israelis believe, probably correctly, that Mr Baker favours rejecting the application if settlements continue to be built in the occupied territories.

Some of the younger, senior members of Israel's ruling Likud party are keenly aware of the dangers of allowing the relationship to deteriorate further. Their latest theme is that Israel has to "get smart" in handling the Bush administration. If the going gets tougher next year it would not be surprising to find an early general election being called in Israel, or a man younger than Mr Shamir leading the Likud troops. If, by then, there is a more emphatic and credible Arab commitment to peace it could be a single issue campaign.

The Arab hawks will meanwhile circle the negotiating table, expecting breakdown and waiting for their clipped wings to grow again. They are too well aware there is hardly an Arab, perhaps a Moslem, who does not believe deep down that the mighty US – which in the name of UN resolutions and justice for people living under occupation came to the rescue of Kuwait – cannot secure self-determination for the Palestinians. Iran, Iraq, Libya and other regional radicals are poised to capitalise on the outbursts of regional bitterness which they know will accompany failure.

Conversations in the occupied territories reveal an almost child-like belief that Madrid will end the suffering. In Tel Aviv last weekend tens of thousands demonstrated in support of Israeli withdrawal. History, sadly, is not on their side. But there has never been such breadth of international agreement that this issue should be resolved. Just possibly the extremists have had their day, although it may take years to prove it.



The battle for Palestine

Israel Population: 4,895,700 (*including East Jerusalem and the Golan Heights*)
Jews: 4,010,300
Other: 885,400
(mainly Arab)
Source: Israel Bureau of Statistics, April 91

Soviet Immigration:

1989:	12,972
1990:	187,000
1991:	94,139 (Jan - July 20)
by 1995:	projected 1m total (*including above figures*)

Source: The Jewish Agency / govt

The Occupied Territories:
Settlers (Jewish):

West Bank:	90-100,000 (*in approx 150 settlements*)
Gaza Strip:	c. 3,000 (*in approx 15 settlements*)
Golan Heights:	12,000 (*in approx 30 settlements*)
East Jerusalem:	120,000 (*in 12 neighbourhoods*)

Source: US State Department 20.3.91 report

Palestinians:

West Bank:	900,000-1m
Gaza Strip:	670,000-750,000

Source: Israel's Civil Administration

Palestinian diaspora
World total Palestinian population: c. 5.5m

Distribution by country

Jordan:	1.53m
Syria:	300,000
Lebanon:	300,000
Kuwait:	35,000
S.Arabia:	200,000
Iraq:	70,000
Gulf States:	86,000
Libya:	27,000

Sources: Council for Arab-British Understanding, and the US Bureau of the Census, (March 1991)

OBSERVER

Schooled in luxury

■ There is something slightly unnerving about the fact that, even in today's depressed conditions, the world's biggest banks insist on spending mega-bucks on new headquarters. Yesterday, the great and the good were out in force for the opening of J P Morgan's $730m palace on London's Victoria Embankment.

Of course, J P Morgan is not just any old bank. Its London roots go back over 150 years, and as the Governor of the Bank of England noted in his opening remarks, the House of Morgan has always been much closer than most banks to HMG. Its financial performance is far superior to that of any other US money centre bank and judging by yesterday's turnout, when Morgan sends out the invites it can count on getting the right sort of replies. Ask most bankers whom they envy most, and invariably Morgan's name is at the top of the list.

Morgan's British-born chairman, Sir Dennis Weatherstone, says he had no regrets about the amount of money spent on the London premises, which is not much different from the sum spent on the group's new US headquarters at 60 Wall Street. But the Great Hall of the City of London school, which Morgan has bought, is the sort of expensive luxury which seems designed to impress customers more than shareholders.

It may a useful forum for traders' pep talks, but beyond that it has little obvious use.

Six rooms too far

■ Envy appears to be a powerful political force in egalitarian Scandinavia – a lesson brought home to one of Denmark's most talented politicians, Ritt Bjerregaard, for the second time in her career.

In 1979, she was dismissed as the Social Democratic government's education minister after running up a substantial bill at the Paris Ritz hotel while representing her country at a Unesco conference. She made a swift comeback, but it is far from certain she will recover from the latest blow.

Yesterday, she was forced to stand down as chairman of the parliamentary group of the Social Democratic party, now in opposition. This time the cause of the trouble was an eight-room apartment in Copenhagen, which she and her husband have rented.

Her enemies say she has jumped the housing queue. The city's housing mayor, who happens to be a Conservative, says that members of the Folketing from the provinces (Bjerregaard is from Odense), may not rent flats with more than two principal rooms in Copenhagen. If they do, they must move their official residence to Copenhagen and pay local income tax there.

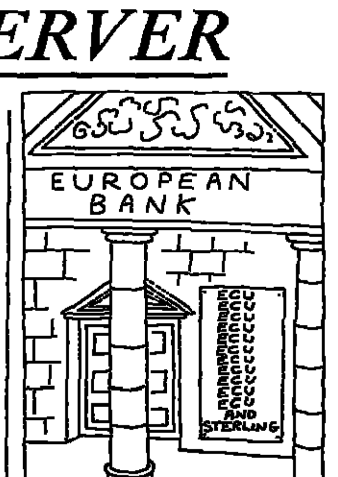
Bjerregaard has called the housing mayor's bluff by taking her case to court. But the negative publicity was too much for the party, and she has paid the price.

Grist for Miller

■ One of the arts world's most self-indulgent, but influential, cabals collapsed suddenly yesterday. For ten years the Arts Correspondents Group had lunched itself and arts world luminaries. In return for a free meal, everyone from the Arts Minister to Sir Peter Hall and Jeremy Isaacs gossiped their moans off their chests – off the record, of course.

But the members proved better at arguing than paying their dues and a personality clash between the chairman, the suave John Parry of the BBC and the flamboyant Nicholas de Jongh of the Guardian, led to Parry's resignation. The correspondents were too stunned to uncover a successor and, while the puzzled guests, Jonathan Miller and Brian MacMaster of the Edinburgh Festival tried to maintain their composure, the group suspended itself.

At least it ended on a high note with the Good Doctor in cracking form, lambasting deconstructionalists and all that continental semiotic nonsense while likening British directors over 50 to aged tarts whose charms were passed over by theatre managers lusting after young, if uninformed, talents.



Two decades on

■ This week has brought the 20th anniversary of the Commons vote that led to Britain's joining the European Community, and a dinner of the distinguished to celebrate same.

The message from Ted Heath downwards was that the victory is not yet secure.

"We shall only win the battle if we fight it publicly," quoth Heath, the prime minister who took Britain in. "An indissoluble union" must be the aim.

The dinner was the idea of William Rodgers, former Labour minister and a founder of the Social Democrats, also celebrating his 63rd birthday. "It was as great as the repeal of the corn laws," he said. "We can say *we were there*."

Actually, not everyone was there. For example, Margaret Thatcher, who voted for entry, gracefully declined to attend.

The behind-the-scenes hero was the now Lord Pym, then the Conservative chief whip who persuaded Heath, much against his will, to allow the Tories a free vote. Pym was present along with Lord Prior, though the only member of the current government attending was Nick Scott from social security.

Sunny side up

■ Why did The Sun, Britain's most titillating tabloid, turn down its biggest financial scoop in years by handing back to Hawker Siddeley a highly sensitive document containing the group's profit forecast?

The 72-page document – the key to Hawker's defence against BTR's hostile bid – was found by a reader. "As the document was found in the street we felt it was the correct and proper thing to do to return it to Hawker," explained David Yelland, the Sun's City editor, adding, "unlike Daily Mirror journalists we do have our ethics."

The official line is that the decision to return the document was made after taking legal advice. But persuading Hawker to give a sizeable sum to the Anne Diamond Cot Death appeal, in return for the document, probably made a much better Sun story anyway.

But can Hawker Siddeley quietly forget the embarrassing episode? It is not saying whose initials were on the document and whether it is paying the Sun reader a finder's fee. More important: if someone other than its immediate advisers has seen its profit forecast, does this not risk there being a false market in Hawker's shares?

Endgame with everything still to play for

As the Maastricht summit nears, the road to EC political and monetary union has become clearer, writes David Buchan

The outcome of the European Community's incredibly complex 12-sided negotiations on political and monetary union has suddenly become a bit easier to read, for two reasons.

First, the Dutch presidency of the EC has now laid out a broadly acceptable outline for economic and monetary union (Emu). It was this project that back in 1988-89 started the EC off on the process of refashioning its constitution. Since then, it has always been likely that if EC states failed to turn the general consensus on the need for Emu, among 11 of them, into an agreement, they surely would not succeed – nor even try – to narrow their more numerous differences over European political union (Epu).

The second reason relates to the link that the EC's most powerful member, Germany, has made between Emu and Epu. No Emu without Epu, says Chancellor Helmut Kohl, meaning that he will only surrender the D-Mark to what he regards as a satisfactory political union. Up to now it has been tantalisingly unclear – to those many of his partners seeking to give him satisfaction – precisely what Mr Kohl's priorities on Epu are.

They are now coming into sharper focus. The Dutch presidency is proposing to give the European Parliament more of a role in Emu than the negotiators from Bonn's finance ministry have been ready to countenance. It is perhaps going too far to say this will call Mr Kohl's bluff in demanding more power for Strasbourg; but it shows that the chancellor is not fighting for MEPs on all EC fronts. More important, Mr Kohl is now making a big effort to crown Epu with a common foreign and security policy. Most of the recent Franco-German paper on future European defence was drafted inside the chancellor's own office.

So, if you have put money on the Twelve agreeing to political and monetary union at their Maastricht summit in December, do not worry. On the other hand, if you have not yet wagered on a successful outcome, wait a bit because the odds will surely lengthen over the six-week run-up to Maastricht. As the endgame starts in earnest, and EC leaders begin to posture and in some cases wave their vetoes around their heads, the climate for agreement will undoubtedly *seem* worse.

Inevitably, many of the storm clouds are over Britain. Anxious about big issues such as foreign and defence policy, Prime Minister John Major has become irritated by small ones such as a certain over-zealousness by Brussels about environmental planning procedures in the UK. But he has now got, written clearly into the new Dutch draft treaty on Emu, the assurance that any decision to take part in the final currency-pooling stage of Emu in the late 1990s lies with a future House of Commons. Having got such clear satisfaction on Emu, Mr Major would surely find it all the harder to veto Epu provisions at Maastricht.

True, the Dutch have balanced the generalised let-out they have created for Britain with the idea that EC states should sign up at Maastricht to a solemn declaration committing themselves to keep right on to the end of the Emu road. Piously, Mr Wim Kok, the Dutch finance minister, said he hoped Britain would be among the signatories, a hope which London immediately dashed. But the "Maastricht declaration" was not designed for Britain, but as a self-denying ordinance for those of its partners which might be tempted to use the general let-out to duck out of Emu later on. "Indeed it would be better if Britain didn't sign the declaration," quipped a Commission official yesterday, adding that "otherwise, it wouldn't seem serious".

At a regular meeting of Emu negotiators later today, the Dutch will find out how many of their partners will accept the declaration ruse. Several states share the view of Mr Jacques Delors, the Commission president, that unless countries commit themselves, by parliamentary ratification of Emu next year, to achieving a single currency in the late 1990s, the Emu project will fail.

Such states might be tempted to try to give the declaration binding force by adding it to the treaty as a protocol. But that risks a British veto, bringing the whole treaty crashing to the ground. It would be patently unfair to deny to other parliaments the escape-hatch on offer to Westminster. Indeed, once the general let-out was put on the negotiating table in September, Denmark saw merit in it – not because Copenhagen is thinking now of backing out of Emu, but because it might want to put participation in the final stage of Emu to a future referendum.

The Twelve are far from being agreed on all the details of the convergence criteria by which economies are to be judged fit to enter Emu, and of the penalties that should be imposed on countries which run persistently large budget deficits once they are in Emu. But no one now dissents from the principle that economic convergence and discipline are needed.

A measure of the economic Calvinism which the Dutch presidency has apparently imbued even in its southern partners came earlier this month. Spain and Portugal volunteered the idea – which now appears in the Dutch draft treaty – that chronic "budget-busters" should be forced to deposit money with the Community, the interest of which would be paid into the EC exchequer. Very rationally, the Spanish and Portuguese judged this to be better for them than fines. They would get the principal back, while standing a chance of recouping some of the interest in the guise of regular EC structural aid.

Left unsettled in the Dutch draft on Emu are several issues. Some are important, but purely technical. Mr Kok told fellow finance ministers, in a letter accompanying his

It would be patently unfair to deny to other parliaments the escape-hatch on offer to Westminster. Indeed, Denmark saw its merit

draft treaty, that they must devote some attention to giving the European Central Bank (ECB) a role in the prudential supervision of credit institutions. Other issues seem technical, but have strong political overtones. France and southern allies lost their battle for the ECB to be set up in some form during the planned 1994-97 transition, and accepted the Dutch compromise for a European Monetary Institute (EMI).

But there is still disagreement over whether the EMI should have an independent president and vice-president to make it distinct from the present EC committee of central bank governors. And France is still fretting that the EMI should have some official foreign reservers at its disposal.

Then there is the issue – important for Britain as well as southern countries – of what role countries not actually taking part in Emu should play in the ECB. Mr Kok's compromise is to bar non-Emu participants from voting on the ECB board, but to group all national central bank governors in a separate Chamber of Governors with a largely advisory function. This apes the European Monetary System to which all EC states belong, even if their currencies are not in the exchange rate mechanism. But Mr Kok said he still expected his compromise to attract opposition.

The Dutch presidency, egged on by Belgium, has itself thrown a wild card into the Emu negotiations by seeking, at this late stage, to bolster the Commission's right of initiative and the European Parliament's law-making role. Virtually undetected throughout the past year's negotiations has been the way that Emu has been discussed as though it were one of the famous separate "pillars" of Community activity such as foreign policy and internal policing.

This is despite the universal agreement that Emu should be integrated right into the body of the Treaty of Rome. It was almost taken for granted that the two traditional supranational bodies – the Strasbourg parliament and the Brussels Commission – would have to take a back seat to a third such body, the ECB.

But the Dutch and Belgian governments believe that, without the Commission playing its traditional role of protector of smaller EC states, the way is open for a directorate of three or four big countries to run the Emu show. The danger they see is that, unless the usual rules, rigged in the Commission's favour, apply, three big countries could get together and with 30 votes be more than halfway to reaching the necessary 54 for a majority on Emu legislation.

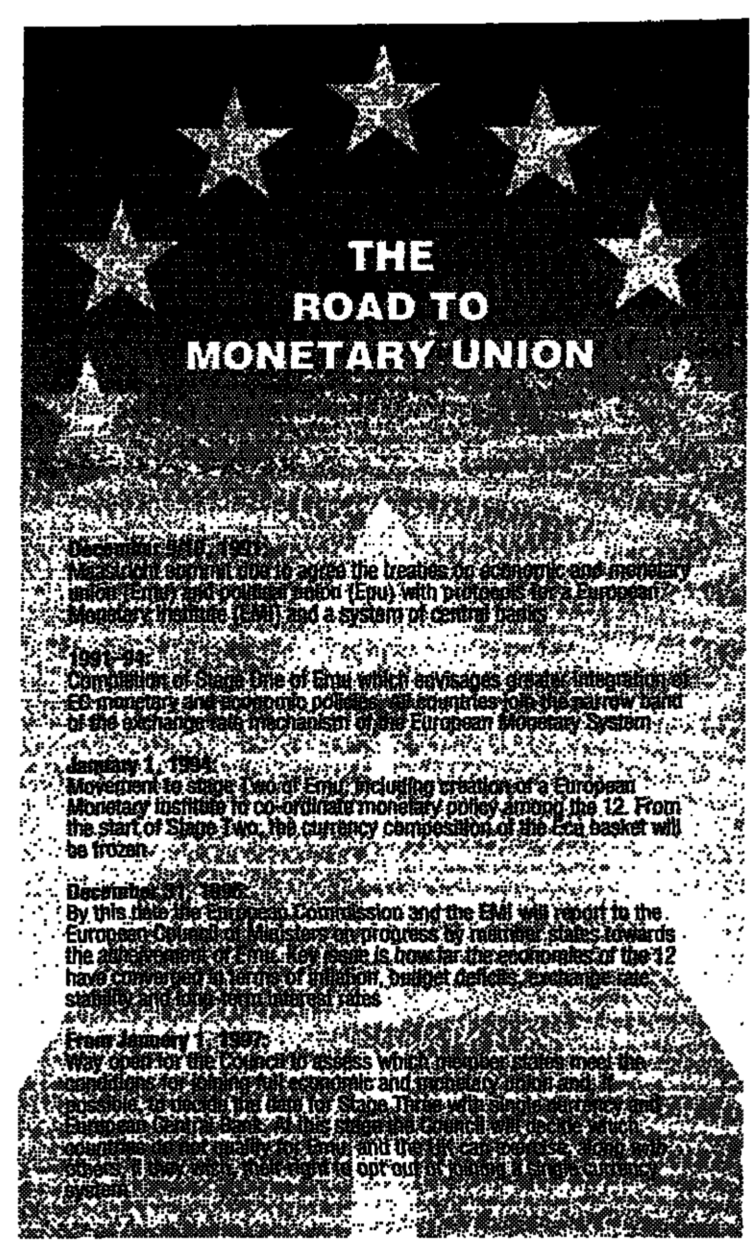
The snag is that the big countries like Germany, France, even Britain, will probably not tolerate the introduction into the Emu field of standard Treaty of Rome rules that require the Council of Ministers to act unanimously, if it wants to change a Commission proposal. These big countries want to be able to overrule the Commission on a majority.

The quixotic Dutch-Belgian initiative is a clear reminder of the interconnections between Emu and Epu, for so long negotiated – and written about – separately. Indeed the issue is only likely to be settled in the context of an Epu deal on the European Parliament's powers.

Such a deal is looking more likely now. Britain's basic fear has been that MEPs might somehow get the power to get EC governments to do something they do not want to do, rather than stop them from doing things. So, Westminster seems to be readying itself to concede a general right for Strasbourg to kill legislation. Bonn, for its part, preaches giving MEPs an equal "co-decision" right with governments on legislation. But it may now proceed cautiously if the Dutch and Belgians want to extend this to Emu matters.

Extending majority voting into areas of traditional EC competence has, for the most part, never been too controversial. Time has not stood still during this year's intergovernmental conferences. The European Court of Justice effectively ruled this summer that almost all EC environmental measures could be related to the internal market and thus could be settled by majority Council verdict, a ruling that Britain now seems to accept will be endorsed in the Epu treaty.

Mr Major will contest extending majority voting on social policy until he sits down at the Maastricht summit table. But since this is so clearly a UK party political, as distinct from national, interest, it is hard to disagree with Sir Leon Brittan, the senior UK commissioner, who predicts that "if all else is settled, I would be very surprised if social policy proved the obstacle".



Spreading the convergence gospel

The missionaries from the European Commission headquarters at the Berlaymont, site of an old convent, are now taking the gospel of economic convergence to the far corners of the Community, writes David Buchan.

This week a senior Commission official became Portugal's new finance minister. Another sits on the Irish government's economic planning group. Last month officials from Brussels and Rome started what will be a regular Commission review of Italian budgets. Somewhat less willingly, Greece has had to submit to intrusive Commission supervision of its whole economy as the price of getting an Ecu2bn (£1.4bn) EC loan earlier this year.

These states would never submit to, or solicit, this kind of supervision, if it were not for Emu and the threat – now made real in the Dutch draft treaty – that if their economic performance did not improve by the late 1990s, they would be shut out of the monetary union.

All EC states, bar France and Luxembourg, have now submitted, at the Commission's request, "convergence" plans. These are little more than the standard medium-term forecasts that governments regularly produce. But they will be discussed at meetings of EC finance ministers, with the aim of subjecting ministers in charge of economies with high inflation or large budget deficits to pressure from their peers to do better.

Getting into Emu will not be easy, if countries are to meet the standards laid out in the Dutch draft treaty protocols. A country would only be deemed to join Emu, if over the previous year it had brought its inflation rate to within 1.5 percentage points of the rates of the three best-performing states, maintained its currency within the ERM's narrow band for two years, and got its long-term interest rates to within 2 percentage points of the best-performing trio.

LETTERS

Environment: matching targets and resources

From the Rt. Hon. Michael Heseltine MP.

Sir, I must put the record straight on your article of October 21 headed "Lack of resources could delay environment protection plans". This is very misleading. If my department had been consulted it would have enabled you to avoid such a mistake.

I introduced the MINIS process in the DoE in 1980 as a method of enabling line managers each year to set out their policy and management objectives and resource needs. John Hobson's MINIS 12 report, submitted in January this year (10 months ago), did precisely that. He very properly warned of the rapidly increasing pressures on his directorate; that is his responsibility as a line manager. The report is now in the public domain, as with all previous MINIS reports. After suitable discussion, ministers and the top management of the department agreed that his directorate should be strengthened, by some six posts. Mr Hobson now reports a much better match between targets and available resources. No doubt he will report further in MINIS 13.

As you see, the MINIS system has worked. Line management's requests have been systematically analysed, and the appropriate response made. It is a pity that your correspondent saw fit to report this entirely sensible approach in crisis terms.

Michael Heseltine,
secretary of state for the environment,
2 Marsham Street,
London SW1

Allied-Lyons deal seen as contradiction in terms

From Mr Edward Whitley.

Sir, You report (UK Company News, October 28) that a proposed deal by Allied-Lyons to lease 750 pubs to Brent Walker "would mark a sizeable move in the direction of cutting the size of its tied pub estate in order to comply with government orders on the number brewers may own". This is a contradiction in terms, because, by merely leasing the pubs Allied would continue to own them and thus reap all the long-term benefits of ownership. Furthermore, as you also report, "contracts would be signed so that Allied would continue to supply them with beer and other drinks".

These pubs would thus continue to bear the same relationship to Allied as many of its other pubs which it has leased over the years. The only way for the government's orders to be complied with would be for them to be sold outright, as you also report that Bass did when it sold 372 pubs to Enterprise Inns last month.

If the Office of Fair Trading nods the deal through, then the brewers will have driven their coach and horses through the government's orders. Is anyone at Westminster interested, or are they too busy pondering the opinion polls?

Edward Whitley,
Churston Lodge,
Pulverbatch,
Shrewsbury

Justices of peace offer best way of reducing brewers' power

From Mr R A Parvin.

Sir, How right Tony Jackson was in his article about the power of the breweries ("Trouble brewing: a look at a disastrous intervention in the UK beer market", October 26). The four of us, professional entertainers all, created and have run Grotchets Wine and Piano Bar in Canterbury since 1985. We first applied for a full licence when we opened. We were given a licence to sell wine and lagers in cans and bottles brewed other than in the UK.

This year, in February, after the pub next door closed, we applied again for a full on-licence. We were turned down on the basis (we later discovered) that the local justices did not want us to turn into just another pub. In their opinion, Canterbury, having been once a big garrison town, has too many already.

In June we invited the justices to grant us a full on-licence with the conditions that we are only allowed one draught beer or lager brewed in the UK and we must maintain our extensive food menu. This they agreed to.

Canterbury has many visitors from abroad, particularly long-term language students. They prefer us because we are more like cafés they find at home than anything else in Canterbury. In restaurants you must eat if you want to drink and pubs are pubs.

It has become abundantly clear to us that confining the JPs to investigating the suitability of would-be licencees and premises is the best way to reduce the power of the breweries. What the government's present efforts have done is to throw the free-house market into total disarray, from which it is unlikely to recover for 10 years or more regardless of the state of the economy.

R A Parvin,
Grotchets,
59 Northgate,
Canterbury,
Kent CT1 1BB

Why the north fears choice of Channel link

From Mr Graham Stringer.

Sir, Mr Malcolm Rifkind, the transport secretary, is using an old political trick in an attempt to make popular his unpopular decision on the Channel tunnel rail link route. He is claiming that everyone likes his decision and he is hoping that, if he says it often enough, the myth will become reality.

In his statement to the Commons, for instance, he said: "It is a decision which has been welcomed in the north, in the Midlands and in Scotland, and it will help to ensure that the benefits of the Channel tunnel will be shared throughout Britain."

Channel-flannel. The north of England (Manchester is a member of the North of England Regional Consortium of authorities) is worried stiff by his decision. We backed BR's preferred route from the tunnel to King's Cross because that station is linked to the nation's rail network and would have served both London and the UK regions well.

We now fear that cash will cease to flow and that the passenger link from Stratford to King's Cross will not be built. And what will that do to business people and tourists wanting to reach the regions by rail? We fear that building the freight terminal at Stratford will frustrate BR's plans for investment in northern rail freight terminals and line upgradings, forcing manufacturers to send their goods south by lorry on crowded roads.

We fear we won't get the vital upgrading of the main west coast rail line serving Birmingham, Manchester and Glasgow (the little extra £750m which Mr Rifkind intends to spend on his chosen route would have paid for that whole job). We fear being cut off indefinitely from the benefits of the Channel tunnel and of the single European market. And, even if the disconnection is not permanent, why should we have to wait until the next century for a link we need urgently?

We need the facts about Mr Rifkind's rail link plans, and we can do without the fictions.

Graham Stringer,
leader of the council,
City of Manchester,
Town Hall, Manchester.

No accounting for some services

From Mr George Nicholson.

Sir, My recollection of local government in general and grass cutting in particular is not the same as that of Howard Davies, controller of the Audit Commission (Monday Interview, October 28).

Shortly after I was first elected as a councillor for the London Borough of Southwark in the late 1970s, I had occasion to query why the grass in the parks was so long. The reply I received – "that they didn't start to cut the grass until the beginning of the financial year" – sounded an alarm bell in my head; an early warning that the cash flow fanatics were taking over.

They are still in control and I will be delighted when the age of accountancy is over. We can then get back to running services on the basis of what we see.

George Nicholson,
6 Copperfield Street,
London SE1

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

FINANCIAL TIMES
Wednesday October 30 1991

Surprise action taken to support foreign exchange levels

Brazil halts gold operations

By Christina Lamb in Rio de Janeiro

THE BRAZILIAN central bank has suspended its operations in the gold market in order to stop foreign exchange reserves falling to levels which could jeopardise payments on foreign debt and interest.

Within 24 hours of the surprise move, the domestic price of gold surged more than 20 per cent and the value of the dollar on the parallel, or black, market rose similarly.

Mr Bruno Scharfstein, head of gold trading at Banco Goldmine, one of Brazil's main gold traders, said yesterday: "Everyone is shocked. We already had an economic and political problem. Now we also have a foreign exchange problem."

Since President Fernando Collor took office in March 1990, the central bank has been intervening heavily in the domestic gold market.

How bacteria is helping in the mining of gold ....Page 32

This was to keep artificially low the parallel dollar rate, which is tied to the gold price.

The gap between the official and parallel rate has long been taken as a barometer of private sector confidence in the economy. Through its gold market operations, the central bank closed the gap from more than 100 per cent to 12 per cent.

The central bank is the only Brazilian entity allowed to deal in the international gold market. As the largest participant in the domestic market, it manipulates domestic gold prices which thus often bear little relation to the international price of gold.

However, growing uncertainty in the economy and a return to monthly inflation of more than 24 per cent, has led to pressure on the parallel rate and increasing numbers of people have converted their assets to gold and dollars. The central bank has had to sell vast quantities of gold, averaging at least five tonnes a day, more than $50m a day at world prices, for the past fortnight.

This has been a drain on the country's reserves. These were already under pressure because of having to pay out $1.5bn a month from August on assets frozen last year as well as payments on foreign debt arrears and interest.

The past two months have also seen a steep drop since the middle of the year in the monthly trade balance: August's $527m trade surplus was the lowest for the month since 1982. A 17 per cent devaluation at the start of this month has failed to stimulate exports because the market expects a further devaluation.

Reserves are estimated to have fallen to just above $7bn. Under Brazilian law, payments on foreign debt must be suspended if the reserves drop below $6.7bn or the equivalent to four months imports. This would scupper current negotiations with the International Monetary Fund and the commercial banks.

Yesterday the gap between the parallel and official rates had risen to 50 per cent by lunchtime.

To prevent a further surge in gold and dollar prices, the Brazilian central bank doubled interest rates late on Monday to more than 4,000 per cent a year.

Final blow: after eight months of fire fighting the last of Kuwait's oil fires will be extinguished next week

Kuwait's flames in final flicker

Mark Nicholson reports on next week's extinguishing of well BG118

WITH the flick of a switch the ruler of Kuwait will next week end an extraordinary engineering accomplishment and one of the world's worst environmental disasters.

At a special ceremony on November 4 or 5, a day which will be proclaimed a national holiday, Sheikh Jaber al-Sabah, the emir, will start up the machinery to put out the last of Kuwait's 640 oil well fires, which for eight months blackened the emirate's skies after Iraq's destructive occupation.

The last fire, at well number BG118, will be left burning specially for the ceremony. Kuwait officials said yesterday all remaining fires will be under control by Saturday.

Yesterday just 18 wells remained to be capped, out of 732 wells ignited or left gushing by departing Iraqi troops. Blow-out teams, which have controlled an average of six fires a day in recent weeks, were working on all 18.

It is remarkable enough that all Kuwait's oil fires will be out by next week, given the government's original forecasts that the task would take until March next year at the earliest and gloomy predictions from the experts that it might take five years.

Also remarkable in a Moslem region not noted for the advancement of women, is that the home-grown Kuwaiti "blow-out" team which will compete the capping of the last well will be led by Ms Sarah Salah, an employee of Kuwait Oil Company.

Ms Salah is the sole woman firefighter tackling the Kuwait fires and counts as one of the emirate's few acknowledged war heroines. As the Iraqi troops invaded in August last year, Ms Salah took computer discs containing vital data on Kuwait's oil wells and hid them, before becoming an active member of the Kuwaiti resistance.

Kuwait has revealed no costs for the fire-fighting project, but US officials estimate it to be about $2bn.

Nor is there a definitive sum for lost oil revenues from the fires, which the government estimated were burning $5m worth of crude oil an hour just after the country's liberation.

Kuwait has already begun demobilising the 27 fire-fighting teams from 10 countries which have attacked the blazes – a measure of the unexpected speed with which blow-out teams have controlled the wells, the first of which was doused and capped on March 17.

The swift accumulation of experience and expertise of the first four fire-fighting teams to arrive in the emirate after liberation – Red Adair Company, Boots & Coots, Wild Well Control from the US and Safety Boss from Canada – led them to unexpected success. Such companies generally attack only a handful of blow-outs each year, usually one at a time.

The four companies alone have extinguished more than 80 per cent of the wells. The remainder have been tackled by teams from the US, Canada, France, Hungary, China, Iran, Russia, Romania and Kuwait.

British employers expect recovery in orders

By Peter Marsh in London

BRITAIN is coming out of recession, Mr Norman Lamont, UK chancellor of the exchequer, said yesterday after a survey by the Confederation of British Industry indicated a sharp rise in confidence by manufacturers and the first signs in 21 months that production volumes may be about to improve.

The quarterly industrial trends survey by the UK employers' organisation also showed that factory investment, while still low, is likely to pick up early in 1992 and that companies plan large rises in spending on innovation and training over the next year.

According to the survey, which is a widely followed barometer of changes in the economy, manufacturers expect orders to remain stable or rise slightly over the next four months. This is the first time since April 1990 that they have expected anything other than a decline in demand.

Mr Lamont, seizing on the first comprehensive piece of evidence that the recession may be lifting, said businesses were "right to be confident" about economic prospects.

The CBI, while welcoming indications that the clouds might be lifting from the UK economy, was less bullish than Mr Lamont in interpreting the results. It also highlighted other aspects to the study, such as its indication of more heavy job losses in manufacturing later this year and the bigger-than-expected sales decline since the summer.

Mr David Wigglesworth, chairman of the CBI's economic committee, said the survey illustrated "flickering signs" of an upturn, which would probably gather pace over the next few months, though its strength was uncertain. He added: "This is certainly not the end of the recession but it may be the beginning of the end."

While Mr Lamont's political opponents failed to share his mood about the extent of the likely upturn, some economists said they agreed with the drift of the chancellor's remarks. Mr David Walton of Goldman Sachs, the US investment bank, said the survey was "the most up-to-date situation report pointing to a decent recovery next year".

According to the survey, for the first time since October 1988, more companies are optimistic about the immediate outlook than are pessimistic.

The survey also said manufacturing companies – which account for about a quarter of the UK economy and strongly influence growth patterns for other sectors such as services – broadly believe that output will improve over the next four months, in contrast to the decline of the past 18 months.

The CBI said the degree of price-cutting in the home market was bigger than at any time since 1967 and profit margins are under severe pressure.

Details, Page 11
Lex, Page 24

THE LEX COLUMN

Low flying at British Aerospace

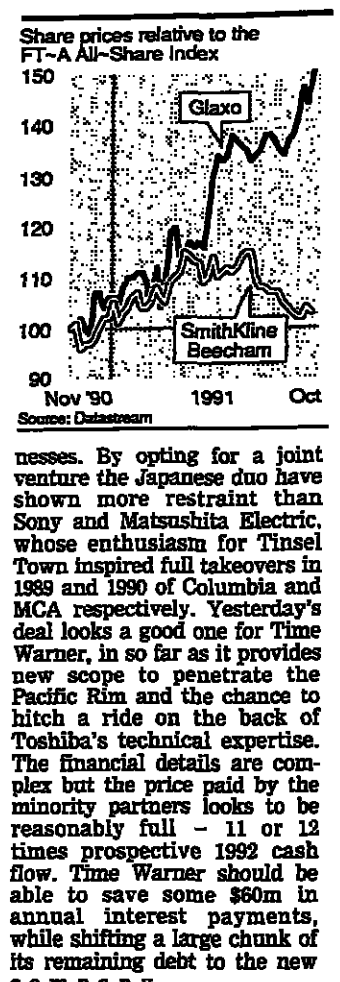
Sir Graham Day is both right and wrong in his contention that the miserable out-turn of the British Aerospace rights issue was not a major setback for the company. It has the money, even though less than 5 per cent of the offering was taken up, but it has paid the price of what looks like a lasting deterioration in its relations with the City. In the process, top management has suffered the humiliation of being seen to have a less than perfect grasp of the way the business was developing and the consequent need for cash.

One has to hope that the reins at British Aerospace are held more tightly now. The stock market is unlikely to stump up a second time. The issue's failure has killed the general appetite for all but top quality rights calls, while the company's shares themselves are left with strictly limited appeal.

Admittedly yesterday's pool placing of 12m shares at 357p has put the shakiest part of the rights overhang into firm investor hands. That should put a floor under the share price, but there is also an effective ceiling close to the original issue price of 380p. This will stay in effect as long as the rest of the overhang is undigested, which could take months. A yield of around 9 per cent is only limited compensation for the lack of upward capital growth potential. Investors looking for income would still do better to buy the company's bonds.

Short of a bid it is hard to see what can lift the shares out of this trading range, but there was no evidence of stake-building in the aftermath of yesterday's failure. That is hardly a surprise now that the rumours of a break-up consortium or a bid from GEC have been exposed as futile: the defence business is just too sensitive, not to mention the problem for any buyer but Honda of eventually absorbing Rover. No doubt recovery will set in with time as the second phase of the Saudi defence order comes through, the UK car market recovers and Airbus consolidates its market hold, but it is going to be a long haul. British Aerospace cannot afford any more accidents along the way.

FT-SE Index: 2,553.3 (-5.2)



Source: Datastream

Time Warner

Tokyo goes to Hollywood 3 hit the screens yesterday when Toshiba and Itoh finally confirmed plans to invest $1bn between them for a 12.5 per cent stake in Time Warner's film and cable television businesses. By opting for a joint venture the Japanese duo have shown more restraint than Sony and Matsushita Electric, whose enthusiasm for Tinsel Town inspired full takeovers in 1989 and 1990 of Columbia and MCA respectively. Yesterday's deal looks a good one for Time Warner, in so far as it provides new scope to penetrate the Pacific Rim and the chance to hitch a ride on the back of Toshiba's technical expertise. The financial details are complex but the price paid by the minority partners looks to be reasonably full – 11 or 12 times prospective 1992 cash flow. Time Warner should be able to save some $60m in annual interest payments, while shifting a large chunk of its remaining debt to the new company.

Corporate bonds

With gilt yields down to levels not seen for two and a half years, corporate treasurers may be eyeing the sterling bond market with a growing sense of anticipation. Investor demand is certainly there, encouraged by the combination of double figure investment returns and limited currency risk. The banks, meanwhile, are once again proving themselves to be fair weather friends, and will charge even blue chip borrowers more for their loans when tougher capital ratios come into force from 1993.

The likelihood is that few industrial companies would want to copy Great Portland Estates, which yesterday followed the example of fellow property company Land Securities by launching a £100m long term debenture. Most corporates will be reluctant to lock in for more than 10 years, and indeed to offer the security normally required for longer dated issues. Neither factor is a particular constraint for Great Portland or LandSecs, which can invest the money in properties yielding more than gilts.

UK economy

The market was largely unmoved by the Confederation of British Industry's quarterly industrial trends survey, partly because of the weekend press and partly because tales of an uneven ending to the recession are rather old hat. The jump in optimism among manufacturers is obviously welcome, albeit unexceptional in its proportions. But it was already accepted wisdom that happiness lies around the corner for the economy, if not for its shrinking workforce. The real question is one of degree. Yesterday's output expectations suggest we might see quiet satisfaction rather than unrestrained joy by the middle of next year.

Optimists will no doubt point to the fact that the decline in capital spending has begun to slow, while unit costs are increasing at the slowest rate for more than three years and are expected to increase even more slowly over the next quarter. Add in the sharp jump in optimism over export prospects, and it is evident that UK industry really believes it is becoming more competitive. It is also clear that widespread domestic price cutting, matched in recent times only in 1967 and 1958, has further enhanced the likelihood that lower inflation will be around for a while. With the Maastricht summit fast approaching, perhaps that is just as well.

SB

Things appear to be looking up for Smith-Kline Beecham. At earlier results this year, its shares fell on worries over sales growth amid a patent lack of US investor interest. Not only did the shares rise by 2.5 per cent yesterday, but third quarter figures suggested that the sales trend is improving much as the company said it would. There is also some evidence that US investors have changed their view of SB. Which makes the question of valuation more germane than ever. Either Glaxo shares are expensive after their 60 per cent outperformance during the past year or SB shares, which have little more than tracked the market, are cheap. Yesterday's figures provide some support for the latter contention.

Chernobyl complex to be shut down two years early

By Chrystia Freeland in Kiev

THE UKRAINIAN parliament yesterday responded to mounting public pressure and voted to shut down the Chernobyl nuclear reactor two years ahead of schedule.

The decision was prompted by a fire at Chernobyl earlier this month. It raised fresh alarm about the site, where a melt-down at the fourth reactor spread radioactive dust over large areas of Europe in the world's worst nuclear accident just over five years ago.

Public unease about Chernobyl is high, and demonstrators demanding its closure blocked the road outside the parliament yesterday.

More than three quarters of MPs supported the bill, which calls for the second reactor in the Chernobyl complex, the site of the fire on October 11, to be closed and immediately taken out of commission. Reactors 1 and 3 are to be shut down not later than 1993. Previously, the complex had been scheduled to shut by 1995.

Soviet debt safety net; French food credit; Russians wrangle over cabinet, Page 2

On Friday, the Soviet government will transfer full authority over Chernobyl to the Ukraine, which is scrambling to gather the specialists needed to monitor the site and its closure.

The Ukraine, a founder member of the UN, has appealed to world body to put forward an international programme for closing down Chernobyl and raising the safety standards of the "sarcophagus", the concrete dome which encases the site of the first accident. The appeal described it as "the most dangerous nuclear spot in the world".

The vote will exacerbate the Ukraine's already serious energy crisis. Mr Viktor Hladush, industry and transport minister, told the Ukrainian parliament last week that if alternative sources of energy were not found, shutting down Chernobyl would leave one in five of the republic's factories without power, or cut electricity available for domestic purposes by 40 per cent.

Last week, parliament rejected a proposal from the cabinet of ministers to make up for this shortfall by opening three other nuclear reactors.

If Russia begins to charge world prices for its oil, the energy crisis in the Ukraine could become acute. Alternatives include hydro-electricity, natural gas, purchasing oil from other countries and charging Russia for the use of pipelines and refineries in the Ukraine.

Fed expected to cut rates

Continued from Page 1

"demonstrably sluggish".

President Bush, meanwhile, has increased the chance of Fed action by distancing himself from plans to cut taxes. On Monday, he ruled out fiscal measures that would break last year's budget agreement with Congress or place a bigger debt burden on young people.

Speculation about lower interest rates caused the benchmark 30-year Treasury issue to jump $1\frac{7}{16}$ to $102\frac{15}{32}$, sending the yield crashing back through 8 per cent to 7.901 per cent. The decline in bond yields boosted share prices, with the Dow Jones Industrial Average rising 16.32 to close at 3,061.94.

A small US bank holding company, First Fidelity Bancorp of New Jersey, said yesterday it was cutting its prime lending rate to 7.75 per cent from 8.0 per cent, effective from today.

Madrid peace conference

Continued from Page 1

to the decision to allow the Palestinians to make a full-length opening statement in spite of the fact they are part of a joint Jordanian-Palestinian delegation.

But at a meeting with Mr James Baker, the US secretary of state, Mr Shamir was expected to press Israel's case that substantive bilateral negotiations set to begin at the weekend should move back to the Middle East, including sessions in Israel, after not more than one or two initial meetings.

The Arabs are opposed to making such a de facto recognition of Israel until it has agreed to relinquish occupied territory.

Mr Shamir also met Mr Gorbachev for the first time following the Soviet decision to restore full diplomatic relations in advance of the peace conference. Moscow severed relations during the 1967 war.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	18	64	Berlin	C	5	41	Caracas	C	29	84	Faro	S	22	72	Islamabad	F	26	79
Algiers	F	21	70	Biarritz	S	16	61	Casablanca	S	19	66	Florence	F	12	54	Istanbul	F	11	52
Amsterdam	C	8	46	Bombay	S	34	93	Chicago	R	14	57	Frankfurt	S	7	45	Jakarta	C	33	91
Athens	R	15	59	Bordeaux	F	16	61	Cologne	S	9	48	Geneva	C	11	52	Jersey	C	13	55
Bahrain	S	30	86	Boulogne	F	12	54	Copenhagen	C	8	46	Gibraltar	S	19	66	Johannesburg	F	27	81
Bangkok	F	32	90	Brussels	S	13	55	Corfu	F	19	66	Glasgow	R	13	55	Lima	C	22	72
Barcelona	F	18	64	Budapest	F	6	43	Dallas	Fg	18	64	Helsinki	C	4	39	Lisbon	F	18	64
Beirut	S	23	73	Buenos Aires	F	20	68	Dublin	R	12	54	Hong Kong	F	24	75	London	F	13	55
Belfast	R	11	52	Cairo	S	20	68	Dubrovnik		–	–	Innsbruck	S	6	43	Los Angeles	S	11	52
Belgrade	S	6	43	Cape Town	R	14	57	Edinburgh	C	13	55	Inverness	C	13	55	Luxembourg	S	8	46

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	R	18	64	Milan	C	8	46	Nicosia	S	24	75	Salzburg	S	5	41	Tenerife	C	23	73
Madrid	C	10	50	Montreal	F	2	36	Oporto	C	15	59	San Francisco	Dr	14	57	Tokyo	S	21	70
Majorca	F	20	68	Moscow	C	0	32	Oslo	C	7	45	Seoul	S	15	59	Toronto	C	9	48
Malaga	S	21	70	Munich	S	2	36	Paris	C	11	52	Singapore	S	29	84	Tunis	C	18	64
Malta	S	23	73	Nairobi	F	27	81	Peking	S	19	66	Stockholm	C	6	43	Valencia	S	20	68
Manchester	C	12	54	Naples	F	18	64	Prague	C	4	39	Strasbourg	C	4	39	Venice	S	11	52
Manila	C	30	86	Nassau	F	29	84	Reykjavik	S	8	46	Sydney	S	20	68	Vienna	S	5	41
Melbourne	S	25	77	New Delhi	S	27	81	Rhodes	F	22	72	Taipei	R	23	73	Warsaw	F	2	36
Mexico City	C	27	81	New York	S	4	39	Rio de Janeiro	C	30	86	Tangier	S	21	70	Washington	S	7	45
Miami	S	23	73	Nice	F	17	63	Rome	S	18	64	Tel Aviv	S	25	77	Zurich	C	4	39

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday October 30 1991

INSIDE

KIO and Daimler to discuss 14.6% stake

Daimler-Benz will meet Kuwait Investment Office officials this week to discuss what the KIO plans to do with its 14.6 per cent stake in the German manufacturing group. The move follows reports that the KIO is planning either to sell the stake outright or to launch a bond issue convertible into Daimler shares. Page 27

Whisky bid on the rocks

The hotly contested battle for independent Scotch whisky producer Invergordon Distillers draws to a close today. Early indications are that the £350m ($591m) bid by Whyte & Mackay, UK drinks subsidiary of American Brands, the US tobacco group, has failed to secure sufficient institutional support for the takeover. Page 30

Shake-up for primary dealers

The US treasury has unveiled reforms to its auction process aimed at shaking up the cosy world of primary dealers. The most radical element will allow all brokers to bid for newly issued securities on behalf of customers, and not just the 39 big broking houses and commercial banks that, as primary dealers, currently enjoy exclusive access to the Treasury note and bond auctions. Page 29

Losses for Thames TV

Thames Television, the regional television service which lost its franchise in the recent auction round, yesterday completed the worst month in the company's history by announcing an interim pre-tax loss of £4m ($6.7m) on a turnover of £178m. Page 30

Profit-taking in Chile

A fortnight of profit-taking has halted what had seemed to be an irresistible rise on Santiago's stock exchange. Chile's recent pause has been welcomed by some stockbrokers, who believed shares had become overpriced and the market needed a short, sharp shock. "It was a useful correction of a speculative bubble," said Mr Mario Lobo, manager of the Salomon Bros Chile Fund. Back Page

Gold bugs in them thar hills

A genuine gold bug that has been nibbling away at the fringes of the gold mining industry for some years now seems ready to make a substantial impact if trials in the Nevada desert are successful. T. ferro-oxidans is a naturally occuring bacteria which, in the right circumstances, will munch away at difficult rock to liberate gold which would otherwise remain locked up for another few thousand years. Ken Gooding reports. Page 32

Fujitsu drops 40% in first half

Fujitsu, the Japanese electronics company, saw non-consolidated pre-tax profits for the first half fall 40.6 per cent because of the deteriorating semiconductor market. Consolidated pre-tax sales rose 22.6 per cent.
Page 26

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Colonia Konz	920	+	40
Kaufhof	526	+	9.5
Mercedes Hld	535	+	10
R'nmetall Brn	308	+	8
Falls			
Lahmeyer	842	−	13
Rosenthal	260	−	8
NEW YORK ($)			
Rises			
Paine Webber	30⅜	+	¾
Salomon	28⅜	+	2¼
Somatogen	40½	+	6½
Xoma	19½	+	1½
Falls			
Centocor	49	−	1¾
Compaq	28¼	−	¾
PARIS (FFr)			
LONDON (Pence)			
Rises			
Alumasc	390	+	25
BLP	52	+	11
ECC	481	+	11
Glaxo	787	+	27
Goodhead	45	+	4
Greycoat	149	+	14
Micro Focus	1828	+	70
Next	56½	+	3
Psion	63	+	12
Radamec	24	+	2
Ricardo	120	+	7

Rises			
From C et Auv	2575	+	58
Industrielle	6200	+	200
Rhone Poulenc	454	+	16
Seb SA	1730	+	45
Falls			
Eurafrance	1445	−	36
Total	951	−	27
TOKYO (Yen)			
Rises			
Daito Wool	1990	+	200
Godo Shusei	2300	+	240
Ise Chemicals	1150	+	150
Shiragawa Ref	1520	+	190
Taiyo Kaiun	388	+	56
Falls			
Nichiei	1100	−	100
SmKl Bchm A	763	+	19
Standard Chtd	409	+	14
WPP	74	+	10
Falls			
Gestetner	143	−	23
Marks Spencer	275	−	6
Northern Foods	534	−	13
Prov Financial	481	−	13
Rosehaugh	18½	−	2½
Sainsbury (J)	331	−	13
Turriff	18	−	7

Salomon takes $200m charge

By Patrick Harverson in New York

SALOMON, the Wall Street securities house facing millions of dollars in potential fines and court payments because of illegal activities in the US Treasury markets, yesterday made a provision of $200m on its third quarter earnings to cover possible liability stemming from the scandal.

A strong performance from securities trading business and a reduction in compensation costs enabled Salomon to record a profit of $85m for the quarter compared with $176m in the previous quarter and $79m in the third quarter of 1990. Total revenues in the third quarter were almost unchanged at $2.4bn.

The figures were warmly received on Wall Street. The shares rose $1¾ to $27⅞.

Salomon said $200m was being put aside to cover "potential settlements, judgments, penalties, fines, litigation expense and other costs" related to its actions in the bond markets. In August this year, Salomon admitted submitting false customer bids and breaking government rules in a series of Treasury auctions stretching back to 1990.

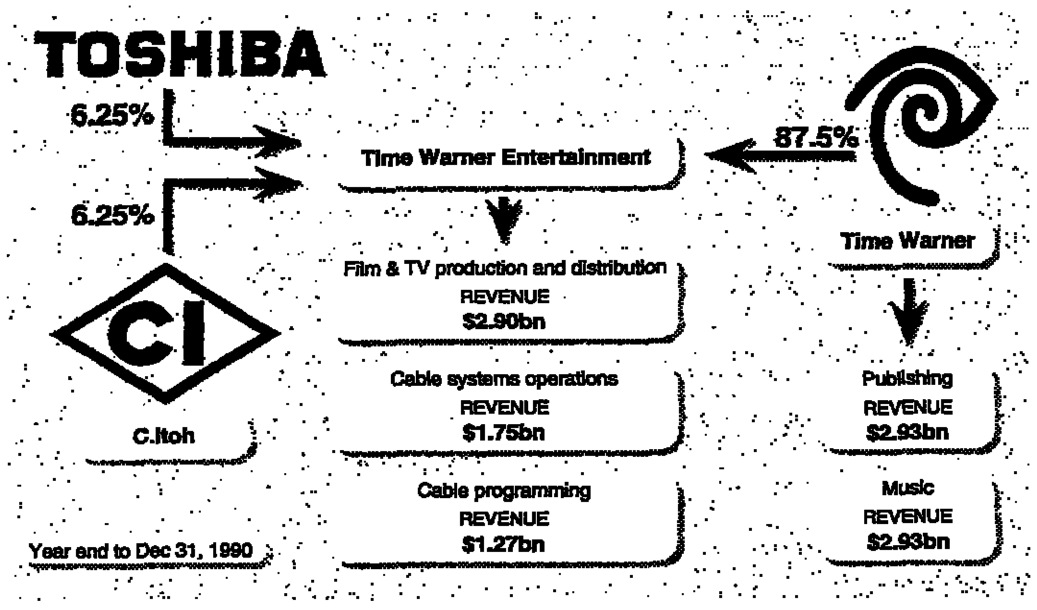
Profits for the quarter would have been lower but for big changes in the make-up of its compensation payments. As part of a radical overhaul of the firm's salary and bonus system, Mr Warren Buffett, who took over as chairman after the bid-rigging scandal broke in the summer, has decided that, from this year, a large part of cash payments to employees will be replaced with awards of stock. Consequently, a $100m downward adjustment of first and second quarter compensation accruals was made in the third quarter.

The picture of underlying earnings at Salomon revealed by the third-quarter report shows that, in spite of favourable market conditions, the firm's profits were damaged by the controversy surrounding the scandal. Several important customers moved to rivals or suspended dealings with Salomon. Income from principal transactions, always the biggest earner for the firm, was $609m, compared with $708m in the previous quarter, and $939m in the third quarter of 1990.

Total assets fell from about $150bn in early August to $97bn by the end of September. The reluctance of some investors to extend loans to Salomon after the scandal, and management's keenness to reduce the firm's leverage, forced Salomon to sell about $50bn in securities in the third quarter - the biggest single asset sale in Wall Street's history.

Alan Friedman in New York and Robert Thomson in Tokyo examine Toshiba and C. Itoh's venture into the US entertainment industry

Japanese pay $1bn to enter Hollywood



Hollywood's two new Japanese actors have a walk-on role in the latest international co-production: Hardware Meets Software. By signing up for a stake in Time Warner's entertainment businesses, Toshiba and C. Itoh are the latest Japanese companies to try to link entertainment software – films, television and other intellectual property – to hardware such as consumer electronics and cable television systems.

The motives of the two sides are clear. By placing nearly 60 per cent of its consolidated assets into a partnership with the two Japanese groups, Time Warner seeks to learn more about new entertainment technology and drive further into the Japanese market. It will also gain $1bn of Japanese money, no small consideration for a group burdened by $8.9bn of debt.

From Toshiba and C. Itoh's point of view, the deal promises greater access to software, as in Sony's takeover of Columbia Pictures for $3.4bn in 1989 and Matsushita's purchase last year of MCA for $6.1bn. In time, it also offers financial returns.

The new venture – Time Warner Entertainment, 87.5 per cent owned by the US company and 6.25 per cent owned by each of its two Japanese partners – will own Warner Brothers, Time Warner's Hollywood studio; Home Box Office, its cable television production unit; and Time Warner Cable, its cable system.

But many uncertainties remain. It is not clear how great will be the ultimate value of this venture to the Japanese partners, nor how large the real financial impact on Time Warner. And a further uncertainty is whether Time Warner will be able to achieve its goal of bringing in a European partner, reducing its own stake in the new partnership to the 50 per cent level.

Executives at Toshiba and C. Itoh said last night that the expected access to the new company's film and television software was vital to their plans to expand their information system and cable television interests.

The two companies see room for expansion in Japan of what they term the "multi-media industry" which they reckon to be currently worth about Y3,000bn ($22bn), only a third of the size of the US equivalent. Mr Minoru Murofushi, C. Itoh's president, said this figure leaves room for "high growth".

"We have not decided what the specifics of our co-operation will be, but we know that this global alliance is necessary for the future," Mr Murofushi said. "We are looking not only at Japan and Asia, but at the whole world. We know the potential is there."

C. Itoh, one of the big Japanese trading houses, has been developing interests in cable and satellite television and communications. It is a member of the Dai-Ichi Kangyo Bank group of companies, and like other Japanese trading houses, is attempting to develop new businesses to lift sagging sales.

Toshiba, an electrical and electronics manufacturer, has been shaken over the past year by the sharp downturn in the semiconductor market. A dominant producer of 1 megabyte memory chips, it had presumed that memory chips would be an important source of profits well into the next century. Last week Toshiba reported a 62.6 per cent fall in first half pre-tax profits.

Mr Joichi Aoi, Toshiba's president, said the purchase "fitted in with our expectation of the huge potential business arising from the development of the information society". Software, he said, would be as important as hardware. Time Warner says the new venture will make no cash distribution to the partners for the first three years. After that, it will offer the Japanese partners a restricted return on their 12.5 per cent holding. But to start with, at least, Toshiba and C. Itoh are paying $1bn for what they perceive to be a close relationship with the US entertainment and media giant.

Steve Ross: may bring a European name into the TWE venture

From Time Warner's point of view, the benefits are more immediate – and more tangible. Mr Ed Aboodi, the in-house financial adviser to Mr Steve Ross and Mr Nick Nicholas, the co-chief executives of Time Warner, has spent the better part of the past 18 months working on ways to reduce debt and forge strategic alliances. He has made some progress already. Earlier this year Time Warner managed to reduce its debt burden from $11.5bn to $8.9bn by means of a controversial but ultimately successful rights offering.

The Japanese deal will further strengthen the balance sheet. But real financial impact of the venture for Time Warner depends upon a complex series of assumptions about asset values and future earnings.

Mr David Londoner, an analyst at Wertheim Schroder, reckons the assets going into Time Warner Entertainment are worth around $17bn. He estimates the potential market value of Warner Brothers at more than $5bn, of the Home Box Office cable movie company at $1.6bn and the Time Warner cable business at $10.4bn.

Time Warner says Time Warner Entertainment's total capitalisation is valued at $20bn. This includes a pro rata equity value of $8bn – based on the Japanese $1bn investment for 12.5 per cent of Time Warner Entertainment. Also included is the $7bn of Time Warner's $8.9bn of debt that is being transferred from the balance sheet of the parent company into Time Warner Entertainment. Finally, Time Warner adds in $5bn more of what it calls preferred equity, or its capital account equivalent in the limited partnership.

Time Warner will be left with $1.9bn of debt on its parent balance sheet, to be halved with the $1bn of proceeds from the Japanese partners. It will also be responsible for 87.5 per cent of the $7bn of debt transferred into Time Warner Entertainment.

At present, therefore, Time Warner's overall debt can be expected to come down by a little more than $1bn. But Time Warner says there will be no cash distribution, except for tax obligations, from Time Warner Entertainment for the first three years of its existence. With 1991 estimated operating earnings – before interest, taxes and depreciation – from the Time Warner Entertainment assets of $1.5bn, this could offer scope for further reduction of the venture's $7bn of debt. How much debt reduction will occur depends on the investment the business needs.

After the first three years Time Warner will will receive 87.5 per cent of the partnership's first $800m of cash flow and 100 per cent of the next $700m. This will give Time Warner Entertainment an edge in the near term.

In order to achieve the Japanese deal, however, Time Warner needs to buy out the 18 per cent of stock held by the public in its American Television and Communications (ATC) cable television subsidiary. Time Warner is promising ATC shareholders $1.47bn of value after three years, or $75 of Time Warner stock and cash for each ATC share now held. If this is all in paper then the cash position of Time Warner will not be affected. But the price of ATC stock yesterday stood at $54½ (up by $3½), meaning the market is thus far not convinced of the final terms of the offer.

Time Warner is hoping to lower its overall debt servicing commitments still further and to expand its access to international entertainment markets by bringing a European name into Time Warner Entertainment. Mr Ross mooted this more than 18 months ago, so far without result.

From Time Warner's point of view, the partnership seems a genuine step forwards in financial terms, albeit an intermediate move. Seen from Tokyo, the picture is less clear. Japanese electronics industry specialists say that Toshiba has accomplished some of the same aims as its electronics rivals Sony and Matsushita, which bought Hollywood studios outright.

In keeping with its traditional conservatism, Toshiba has paid a lower price in return for a much more limited involvement. The question in Tokyo is whether the two Japanese partners will find that the seemingly ill-defined boundaries of the relationship with Time Warner give them in the end less than the access and the assets they presume they are buying.

BAe chief rejects pressure for shake-up as issue flops

By Norma Cohen, Richard Waters and Charles Leadbeater

MR DICK EVANS, BAe's chief executive, denied yesterday that the failure of the company's controversial rights issue would force it to consider far-reaching management changes.

He refuted suggestions by institutional investors that BAe should revise strategy, slim down to its core defence and aerospace activities and strengthen financial disciplines. It would stick to its four main businesses – aerospace, defence, cars and property.

The outlook for BAe's share price remains gloomy as the company's financial advisers arranged to re-sell 12m shares at 23p below the price at which they had been offered to shareholders.

The scramble by sub-underwriters to the right issue to shed unwanted shares forced the company's financial advisers to mark the price down to 357p, 23p below the 380p offer price. The company said that only 4.9 per cent of investors had bought its new shares, leaving nearly 12m shares with underwriters. The take-up was at the low end of that projected the day before and was the worst performance of any offering since several punctured by the stock market crash of October 1987.

However, Mr Evans said: "British Aerospace has been singly lacking in getting robustness into its businesses so they can deal with vulnerable situations when they arise. With this rights issue we can get that robustness and achieve the stability we need."

Kleinwort Benson, financial advisers, and Hoare Govett, co-brokers with Kleinwort to the issue, operated a so-called "pool" operation. This is customary after rights offerings which leave underwriters with unsold shares, and is used to match buyers' and sellers' shares without causing market disruption if large numbers need to change hands.

Fund managers said that advisers had initially offered pool shares for sale at 365p. A late addition to the pool left far more shares than the market could absorb at that price. A further discount was needed.

About 12m shares changed hands in the pool arrangement, or 10 per cent of the total number of shares offered in the rights issue. BAe's advisers said that the discount at which they were sold, at about 7p below the market price at the time, was a narrow one and said many institutions were still keen to buy BAe shares.

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Background, Page 27

SmithKline rises 16% to £252m

By Paul Abrahams in London

SMITHKLINE Beecham, the Anglo-American pharmaceuticals group, yesterday demonstrated the continuing strength of the pharmaceutical sector when it posted profits for the third quarter up 16 per cent.

The group offset a fall in profits and turnover at its consumer products division with strong performances from pharmaceutical and clinical laboratories operations.

Pre-tax profits increased from £218m to £252m ($428m). Turnover rose 9 per cent from £1.07bn to £1.17bn, helped by a strong dollar. At constant exchange rates, and excluding a £12m one-off payment from a competitor, the company achieved a 4 per cent increase in sales. The results were slightly above analysts' expectations. SmithKline's A shares rose 19p to 763p.

Mr Robert Bauman, chief executive, blamed the poor state of the US economy and de-stocking by retailers for the 6 per cent fall in turnover at the company's consumer brands division.

The company said most of the downturn had been in personal care products in the US. Retailers which normally re-stocked for winter during the third quarter had held back orders, it said. The division's trading profits fell £11m to £71m.

The pharmaceuticals division compensated by registering a 16 per cent increase in sales from £507m to £587m. At constant exchange rates the growth was 9 per cent. Trading profits rose 31 per cent from £120m to £157m. This was helped, however, by a payment by Bolar Pharmaceuticals, a US generic drug company, which was forced to pay SmithKline £12m after it falsified submissions to the US Food and Drug Administration.

The clinical laboratories division saw revenues rise 12 per cent at constant exchange rates. It said growth in its animal health division was disappointing at 4 per cent and that US farmers and pet owners were cutting down on medication.

The tax rate for the first nine months was 32.8 per cent, a figure which the company said it expected to maintain for the rest of the year. Net debt fell to £638m. Gearing fell to 56 per cent and should fall to 50 per cent by the end of the year, it said.

Earnings per share rose 22 per cent to 12.1p. The third-quarter dividend is 3.75p (3.4p) per A ordinary share and 42.44 cents (43.09 cents) per equity unit.

Lex, Page 24

Fujitsu plunges 40% as chip market weakens

By Emiko Terazono in Tokyo

FUJITSU, the leading Japanese electronics company, reported a 40.6 per cent fall in non-consolidated pre-tax profit for the first half to September due to the deteriorating semiconductor market.

The company also announced consolidated results, including International Computers (ICL) of the UK in which it has an 80 per cent holding, and 300 other subsidiaries.

Consolidated sales rose 22.6 per cent to Y1,587.2bn ($12.02bn), reflecting the inclusion of ICL's sales starting this fiscal year, but pre-tax profits fell 40.7 per cent to Y30.9bn due to the slump in overseas markets. After-tax profits plunged 60.1 per cent to Y10.3bn.

Fujitsu revised down projections for the year due to expectations of a further slowdown in the domestic economy and a decline in capital investments by companies. The company forecasts a 29.3 per cent fall in non-consolidated pre-tax profits to Y90bn on a 9.1 per cent rise in sales to Y2,550bn.

On a consolidated basis, Fujitsu expects pre-tax profits to fall 32.7 per cent to Y100bn on a 21.2 per cent increase in sales to Y3,600bn.

Increasing competition and slow demand in the 4-Mbit chip market eroded profits, and although Fujitsu posted an 8.6 per cent rise in year-on-year unconsolidated sales to Y1,163.2bn, a sharp decline in margins pushed unconsolidated pre-tax profits down to Y32.9bn. After-tax profits fell by 31.5 per cent to Y20.1bn.

The rise in the yen and continued sluggishness in the US and European markets also hurt Fujitsu. The company was hit by sharp price reductions in its mainframe computers as companies turned away from large computer networks to smaller desktop-type products.

Fujitsu said it plans to shift production in computers to smaller personal computer networks, but Mr Barry Dargan, electrical analyst at brokers James Capel, said Fujitsu's high exposure to the mainframe market will continue to depress business as the recovery in larger-sized computers was highly unlikely.

Sales of semiconductors declined 5 per cent to Y127.5bn on a 4 per cent fall in domestic sales to Y89.8bn and a 6 per cent fall in overseas sales to Y37.7bn.

The company said its 4-Mbit lines in Japan and the UK were "not running at 100 per cent of capacity."

Overall computer sales grew 14 per cent to Y845.7bn. Domestic sales rose 20 per cent to Y740.9bn on brisk turnover of office equipment, but overseas sales fell by 18 per cent to Y104.8bn on sluggish business in mainframe computers.

Fujitsu reported a 1 per cent fall in telecommunication equipment to Y189.9bn. Domestic sales grew 11 per cent to Y165.5bn, but sales overseas plunged 43 per cent to Y24.4bn on slack demand in the US telecom markets.

Despite the weakness, Fujitsu said capital investment for the year would be maintained at Y220bn for the parent company, and Y380bn on a consolidated basis, as the company needs to prepare for an upturn in demand for semiconductors expected in the near future.

Tenneco hit by $504m restructure charge

By Martin Dickson in New York

TENNECO, the Houston-based conglomerate, yesterday announced $504m of third-quarter pre-tax restructuring charges, mainly to cover rationalisation of its troubled J I Case farm and construction equipment business. It also plans to raise up to $500m in new preferred stock.

The charges, which were foreshadowed last month when the group announced plans for a big shake-up, pushed Tenneco into a third-quarter net loss of $693m, or $5.69 a share, compared with net income of $91m, or 70 cents, in the same period of last year. Sales and revenues dipped from $3.4bn to $3.2bn.

Some $413m of the charges involve Case; $79m are attributable to the group's Albright & Wilson chemicals unit; and $12m involve Tenneco, the parent company. The figures include $239m for job cuts, $143m for product rationalisation and $122m for plant closings.

Case, together with its larger rival Deere & Co, dominates the US market for farm equipment. The Tenneco arm has been struggling for years to make money and has been hit hard by the recession. Critics claim its problems have been exacerbated by poor inventory control.

Tenneco said that Case, excluding the restructuring charge, had a third-quarter operating loss of $169m, compared with a $26m profit a year ago. It blamed the loss on recession and its steps to cut inventory. Third-quarter North American production was 34 per cent down on the 1990 quarter.

Operating income at its natural gas pipeline division fell from $54m to $17m, while automotive parts made $49m, down from $60m. Shipbuilding made $61m against $49m; packaging $23m against $47m; and chemicals $12m compared with $19m.

Tenneco plans to bolster its balance sheet with an issue of 12.5m depositary shares, each representing half a share of new preferred equity redemption cumulative stock. This is a form of fixed dividend preferred stock, which would raise around $500m with a Tenneco stock price of $40.

Boardroom row threatens Foster's Brewing

By Kevin Brown in Sydney

THE STABILITY of Foster's Brewing, the Australian beer group, was threatened yesterday by a row between Mr Nobby Clark, the chairman, and Mr John Elliott, the former chairman and chief executive.

Mr Clark said he had been unable to secure an undertaking that Mr Elliott would support the existing structure of the Foster's board when elections for directors are held at the annual meeting in two weeks' time.

"If this structure were to be changed, then I believe that the basis for a balanced board with an independent chairman would be gone. I doubt that I would be able to continue in those circumstances," Mr Clark said.

The row follows indications that Mr Elliott is seeking to re-establish himself or a nominee as chairman or chief executive of Foster's, which he built into an international brewing and food group under the name Elders IXL.

A fight for control of Foster's could threaten the reconstruction of the group, which suffered a collapse in its share price last year after announcing a net loss of A$1.3bn (US$1.03bn) for 1989-90, struck after extraordinary losses of A$1.54bn caused by write-offs and provisions against non-core businesses.

Mr Clark, a former chairman of National Australia Bank, was appointed independent chairman of Foster's last year, shortly before a boardroom shake-up in which Mr Peter Bartels replaced Mr Elliott as chief executive.

Mr Clark said he had accepted the chairmanship on the basis of "a specific agreement" with Mr Elliott, whose private company International Brewing Holdings (IBH), formerly Harlin Holdings, owns 36 per cent of Foster's.

The agreement provided for the board to consist of Mr Clark and Mr Bartels; three nominees of IBH, including Mr Elliott; three independent directors; and two representatives of Asahi, the Japanese brewer which owns 20 per cent of Foster's.

The effect was to transfer management control of the company from Mr Elliott to Mr Bartels, who has pursued a strategy of disposing of non-core assets in an attempt to refocus Foster's as a pure brewing group.

Asset sales have helped cut group debt to around A$3.4bn from more than A$7bn in March last year, but the disposal of loss-making finance and agribusiness subsidiaries worth around A$3bn has been delayed by recession in Australia and New Zealand.

The group recently announced a net loss of A$43m for the year to the end of June 1991, despite a contribution of A$488m from the the core brewing operations, which include Carlton and Foster's lager in Australia, Courage and Watney in the UK, and 50 per cent of Molson in Canada.

The board voted not to pay a final dividend, increasing the problems facing IBH, which relies on dividend payments to finance interest on debt of A$2.3bn acquired to buy its Foster's stake.

IBH negotiated a debt rescheduling agreement late last year which delayed repayments of capital until late next year. However, the company's debt is almost double the market value of its Foster's shares.

Both Mr Elliott and Mr Bartels were unavailable for comment.

TNT encouraged by first-quarter results

By Kevin Brown

TNT, the Australian transport group, yesterday reported a smaller-than-expected first-quarter net loss of A$115,000 (US$90,551) after abnormal items, raising hopes that it may break even over the year.

The group made a profit of A$43.7m in the comparable period of last year, but had been expected to post a loss of up to A$20m in this year's first quarter because of the impact of recession in its principal markets.

The encouraging result prompted strong support for TNT shares on the Australian Stock Exchange. The stock rose 8 cents on the day to close at a five-month high of A$1.37. The shares have more than doubled in price since hitting a low of 67 cents in July, following concerns about the group's liquidity and its vulnerability to economic slowdowns in Australia, the UK and North America.

Analysts said TNT was recovering faster than expected after reporting a net loss of A$199m after abnormal items for the year to the end of June – the first loss since the company was formed more than 30 years ago by Sir Peter Abeles, managing director.

Mr Fred Millar, chairman, told the annual meeting that the company was expecting a "disappointing" year, and was not likely to pay any dividends. He said the group would record a small profit for the full year "at best".

"Nevertheless, the restructuring and consolidation that has occurred and is occurring within the group leads us to believe that when the present negative factors have been overcome ... the company will be in a strong position to return to its previous profitability," Mr Millar said.

He said the group's proposed joint venture with a number of European post offices had been delayed by regulatory problems, but was being considered by the European Commission.

TNT is relying on the joint venture to turn round its loss-making European air express business, which has been unable to generate sufficient volume to fill its fleet of dedicated aircraft.

Analysts said the group also faces continued problems with its 50 per cent investment in Ansett Australia, the domestic airline which is co-owned by Mr Rupert Murdoch's News Corporation media group.

Ansett is caught in a fare war following the deregulation of Australian domestic aviation. Ansett Worldwide Aviation Services, an aircraft leasing company jointly owned by the two companies, also faces a loss this year.

TNT said revenue had fallen to A$1.15bn in the quarter, down from A$1.153bn in the comparable period of last year. The group made an operating loss of A$20.6m, against A$22.3m. Abnormal gains, mostly currency translations, were A$20.5m, compared with A$22.4m.

Provisions push Arco into red

By Karen Zagor

ATLANTIC Richfield (Arco), the Los Angeles-based oil and gas company, has turned in underlying third-quarter net income of $184m, or $1.14 a share, against underlying earnings of $382m, or $2.31, a year earlier.

Results in both years were muddied by extraordinary items, including $340m in after-tax net charges in the latest quarter largely related to staff reductions, property sales and write-downs.

In 1990, earnings included about $80m in net gains from a settlement related to an offshore accident and the sale of Norwegian assets partly offset by other charges.

Including these items, Arco had a net loss of $156m, or 99 cents a share, in the 1991 quarter against net income of $462m, or $2.76, in the year-earlier period. Revenues slid to $4.4bn from $4.8bn.

For the first nine months, Arco had net income of $41m, or $2.72, against $1.45bn, or $8.70, a year earlier.

Stripping out extraordinary items, earnings were $736m, or $4.55 a share, in the 1991 period against $1.28bn, or $7.68, last year. Revenues rose to $13.3bn from $13.1bn.

During the quarter, Arco's worldwide oil and gas exploration and production operations had an after-tax loss of $72m, including a charge of about $180m in extraordinary charges.

The segment brought in earnings of $396m a year earlier, including about $185m in one-time after-tax gains.

The average price for Arco's domestic crude oil fell to $13.15 a barrel in the 1991 quarter from $16.89 the previous year.

Arco's coal business had an after-tax loss of $37m, including extraordinary charges of $60m. In 1990, the coal segment brought in after-tax profits of $21m. Lower product margins and higher operating costs led to a fall in refining and marketing profits to $59m from $138m.

Arco also said that it was divesting about 1,100 US oil and gas properties as part of its effort to cut costs.

Chrysler sells stake in Diamond-Star

By Martin Dickson

CHRYSLER, the financially stretched US automobile company, has sold its 50 per cent stake in Diamond-Star Motors, a car assembly joint venture with Mitsubishi Motors, to the Japanese company for just under $100m.

Diamond-Star, which is based in Normal, Illinois, has been operated jointly by the two companies since 1988 and makes a range of sporty cars, including Mitsubishi's Eclipse and Mirage models and Chrysler's Plymouth Laser and Eagle Talon. Output is around 150,000 vehicles a year.

Yesterday's deal, which has been rumoured for months, helps Chrysler's finances in three ways: it produces $100m in cash; it takes Diamond-Star debt off its balance sheet, though Chrysler declined to spell out how much; and it reduces the costs to the US company of developing new Diamond-Star products at a time when it has to finance a $16.6bn new product programme of its own.

For Mitsubishi, the deal means it can introduce new models more rapidly. Mr Taizo Yokoyama, managing director of the company, said: "Chrysler has had difficulty in bearing Diamond-Star's financial burden. Now we will be able to develop new models at our own pace."

Chrysler, however, will continue to have a role in developing new Diamond-Star products, and the plant's output will continue to be shared by the two companies on a 50-50 basis for distribution. Some future models will use Chrysler-designed and produced powertrains for the first time.

Other co-operative deals between the two companies will not be affected. These include the distribution by Chrysler of imported Mitsubishi cars and the purchase of Mitsubishi engines. Chrysler also owns an 11 per cent stake in Mitsubishi Motors and could sell this if its financial position deteriorates seriously.

The US company is expected to report heavy third-quarter losses this week. Analysts expect its red ink to be as much as $230m.

Kemper buoyed by gains in investment services

By Barbara Durr in Chicago

KEMPER, the Chicago-based insurance and financial services company, reported third-quarter net income of $56.1m, or $1.14 a share, up from $37.5m, or 77 cents, in the same period of last year.

The third-quarter result includes a benefit of $6.6m, or 13 cents a share, related to the $400m sale of some of its fixed annuity business. The figure also includes after-tax realised investment losses of $5.8m, or 12 cents, related to the write-down of $17.2m in below investment grade securities.

Revenue for the quarter to end-September rose 7.1 per cent to $784.4m from $732.5m last year.

Mr Joseph Luecke, chairman, said that investment services and the company's property-casualty insurance segments had boosted earnings in the last quarter.

Net income for the first nine months was $160.7m, or $3.32 a share, compared with a net loss of $34.8m, or 71 cents, last year.

The 1990 results included a $126.7m restructuring charge related to the company's brokerage services and a $19.5m arbitration award.

Net income in Kemper's life insurance segment was more than halved during the first nine months to $26.3m, compared with $53.2m last year. The company was hit with losses of $41.9m from after-tax write-downs of below investment grade securities valued at $43.4m.

Kemper, which has been under pressure to shore up the asset quality of the life insurance business, reduced its below investment grade securities by $700.6m during the first nine months, primarily through sales.

The company's investment services segment, including its assets management and securities brokerage operations, had net income during the first nine months of $61.4m, compared with a net loss of $135.2m in the year-earlier period.

Genentech wins Tokyo lawsuit

GENENTECH, the US biotechnology company in which Hoffman-La Roche holds a stake of about 60 per cent, said that an Osaka court had found in its favour in a patent lawsuit brought against Japan's Toyobo, in what Genentech described as Japan's first major biotechnology patent case, writes Karen Zagor in New York.

The court ruled that the sale of the heart attack drug t-PA by Toyobo infringed on Genentech's Japanese t-PA patent.

Sharp decline at Asarco

ASARCO, one of the world's leading integrated non-ferrous metals producers, reported third-quarter net earnings of $10.3m, or 25 cents a share, down 82 per cent from $59.4m, or $1.43, last year, writes Barbara Durr. Sales fell to $493.4m from $594.3m.

Lower metals prices, principally for copper, lead, zinc, silver and gold, was the key factor in the decline.

The latest results also dropped by $900,000, or 2 cents a share, owing to discontinuation in the second quarter of equity accounting for Asarco's investment in Medimsa of Mexico.

Nine-month net earnings were $33.7m, or 82 cents, down from $145m.4m, or $3.50, last year. Sales were $1.42bn, down from $1.66bn.

Asarco's chairman, Mr Richard Osborne, said while lower metals prices and problems at the Ray mine and smelter complex in Arizona affected results so far this year, he was confident about the outlook.

Primerica recruits another American Express executive

By Alan Friedman in New York

MR EDWIN Cooperman, chairman of the troubled Travel Related Services (TRS) division of American Express, has resigned to take up a new job as executive vice-president of Primerica, the successful financial services group led by Mr Sandy Weill, former president of American Express.

The 47-year-old Mr Cooperman is the latest in a string of American Express executives who have left the company and gone over to Primerica, which includes Smith Barney, the broker, among its holdings.

Mr Weill, who built up the Shearson Lehman Hutton securities house that was bought by American Express in 1981, left the presidency of American Express in 1985.

He has since recruited a number of the company's executives at Primerica including Mr Jeffrey Lane, former president of Shearson, Mr Bobby Druskin, former chief financial officer of Shearson and Mr Ed Sherin, former chief of the American Express data systems division.

At American Express, which last week disclosed a 91 per cent plunge in third – quarter earnings and is struggling with credit losses at its Optima credit card subsidiary, the response to Mr Cooperman's departure was to ask Mr Harvey Golub, president of American Express, to take on the TRS portfolio.

Mr Golub was named American Express president last July after investors had criticised Mr Robinson for having left the spot vacant since 1989.

Spanish bank to buy Chase leasing arms

By Karen Zagor

CHASE Manhattan, the large New York commercial bank, has agreed to sell all its European leasing subsidiaries, with total assets of about $550m, to the leasing subsidiary of Banco Hispano Americano. The move is part of Chase's strategy to dispose of non-core businesses.

The agreement follows a spate of disposals, including the recent sale of most of Chase's North American commercial leasing operations, with assets of $2.2bn, and the sale of Chase's institutional asset management business to Union Bank of Switzerland, the largest Swiss bank.

Chase, along with other big New York banks, has been hit by the real-estate slump. The bank has not put a price on any of its leasing sales. It expects the most recent deal to close near the end of the fourth quarter or early in the 1992 first quarter.

Chase said it was now essentially out of the vendor leasing business. However, the bank intends to stay in big ticket leasing, which is more of a corporate finance business.

Banco Hispano Americano will acquire the Chase leasing subsidiaries located in Belgium, France, Germany, the Netherlands, Italy, Spain and the UK.

Banco Hispano Americano is merging with Banco Central to create Banco Central Hispano Americano. The combined entity will be the biggest bank in Spain with assets of about $88.5bn. The bank's leasing subsidiary, Corporacion Financiera Hispamer, is Spain's largest leasing, financing and factoring services company with assets of about $7.5bn.

INTERNATIONAL COMPANIES AND FINANCE

Daimler-Benz seeks KIO 'clarification' of holding

By David Waller

DAIMLER-BENZ is to discuss with the Kuwait Investment Office (KIO) its intention over a 14.6 per cent stake in the German motors, electronics and aerospace group. The move follows recent rumours that the KIO is planning either to sell the stake outright or to launch a bond issue convertible into Daimler shares.

Speaking in Paris yesterday ahead of next week's listing of Daimler on the Paris bourse, Mr Gerhard Liener, finance director, said that he would be meeting Mr Abdullah Al-Gabandi, the KIO's general manager, later this week. Mr Liener said he was expecting some "clarification" of the KIO's intentions. He hoped the Kuwaitis would not sell their shares to a single buyer.

Market uncertainty about the prospect of the sale of the KIO stake, worth approximately DM4.7bn ($2.74bn) at current prices, comes while the company appears to have turned the corner after several years of falling earnings. Mr Liener, speaking days after Mr Edzard Reuter, chairman, signalled higher profits and dividends for the current year, said yesterday that profits for next year would exceed the 1991 result.

The KIO followed its normal practice yesterday and made no comment on its intentions. Analysts said that it was improbable that the Kuwaitis, well-known for their long-term investment horizons, would sell their stake at a time when the Daimler share price was expected to perform strongly.

A bond issue by Kuwaitis removed the threat of an "overhang" of Daimler stock and would thus be positive for the company's share price, analysts said.

Mr Liener confirmed that the rights issue was possible for the latter half of next year. The listing of 40,000 to 45,000 shares next Wednesday would not involve the issuing of any new shares, he said.

He confirmed that Daimler has plans to list its shares on the New York Stock Exchange, but said that this was not possible until the company, Germany's largest industrial group, had reached agreement with the Security and Exchange Commission on accounting issues.

The SEC requires that companies listed in the US produce their figures in line with US Generally Accepted Accounting Principles. These are very much at odds with the extremely conservative approach to accounting adopted by German companies. Daimler and other German industrial groups seeking a listing in the US are hoping to reach a compromise whereby the SEC would accept German accounting.

Continental and Pirelli differences narrow

By Haig Simonian in Milan

MR HUBERTUS von Grünberg, the new chief executive of Continental, the German group being courted by Pirelli, yesterday met Mr Leopoldo Pirelli in Milan for further talks amid signs that differences between the two tyre companies have narrowed considerably.

However, the groups remain divided over the valuation of the Continental shares bought by Pirelli and its allies last year, when the Italian company launched a takeover bid.

In a series of meetings recently, Pirelli and Continental executives are believed to have reached a considerable degree of understanding on potential co-operation.

Among possible areas of joint interest are purchasing, research and development and distribution. It is less clear whether the co-operation would also cover the US, where both companies, which have bought middle-ranking US tyre-makers, have suffered heavily from the domestic motor industry slump.

Sources close to the negotiations say the two companies could announce a range of co-operative ventures before the end of the year. Although substantial, the savings would be appreciably less than the DM400m ($234m) in the fourth year optimistically forecast by Pirelli when its original takeover bid was launched.

Negotiations have been given impetus by the severe slump in profits at both companies due to the cut-throat competition and continuing downturn in the world tyre industry. In the first six months of this year, Pirelli announced a loss of L65bn ($51m), against interim net earnings of L137bn in 1990. Meanwhile, Continental's first-half pre-tax earnings slipped to DM31.5m compared with DM100.5m in the same period last year.

Pirelli has warned of heavier losses for the full year as a result of continuing market difficulties and restructuring costs. However, in its interim results last month, it hinted strongly that the fruits from its, unspecified, collaboration with Continental would play a substantial part in an expected earnings recovery in 1992.

That more bullish outlook was repeated this month, when Mr Giuseppe Ferrari, finance director of the group's Dutch-quoted Pirelli Tyre Holdings subsidiary, predicted a return to profit next year provided price increases could be maintained and the restructuring programme was pushed through.

However, a resolution of the Pirelli-Continental talks remains conditional on a compromise being found for the Continental shares bought by Pirelli and its allies before the takeover was officially launched in September 1990.

Watchdog needs more time to scrutinise bid for Wagon-Lits

THE BANKING and Finance Commission, Belgium's stock market watchdog, yesterday said it could not approve the bid prospectus for Wagons-Lits, the Belgian tourism and travel group, Reuter reports from Brussels.

The commission said it did not have the necessary information to approve the the bid and that its examination of the situation was continuing. It gave no further details.

Accor, the French hotel group, made a BFr8,650-a-share offer last month through Cobefin, its subsidiary.

Cobefin, which announced the offer on October 16, said the bid would extend from November 7 to December 5. Wagons-Lits declined to comment on the commission's move and Accor was unavailable for comment.

Wagons-Lits also announced that that it expected consolidated net profit for this year to reach BFr2bn ($56.9m), compared with BFr547m in the previous 12 months.

The sharp increase would reflect extraordinary profits booked in the first half of the year and a strong recovery in profit from tourism and car rental, the company said.

The company's first-half consolidated net profit, excluding minorities, rose to BFr687m from BFr563m. The result was boosted by extraordinary items of BFr1.35bn.

The extraordinary items stemmed partly from a BFr687m capital gain on the sale of catering activities in France and BFr811m from the sale of a buy option that Wagons-Lits had on its building in Levallois, France.

The items also included a BFr304m provision on Wagons-Lits shares owned by the company, amounting to a 7.61 per cent stake.

The provision, which was made on the basis of the Wagons-Lits share price on June 30, might be reversed in the second half of 1991 on the basis of the Accor bid.

Chemical price fall hurts Neste

By Enrique Tessieri in Helsinki

NESTE, the Finnish state-owned oil and chemicals group, said a sharp drop in chemical prices last spring caused lower profits in the first eight months of this year.

Profit before reserves, taxes and minority interests fell to FM399.2m ($96m), compared with FM1.69bn during the same period last year.

An increase in oil trading activity was mainly responsible for lifting consolidated sales to FM36.1bn from FM27.7bn.

The group's largest trading and supply division saw its sales increase to FM20.62bn from FM13.56bn.

Neste, Finland's largest company in turnover terms, is expected to be the first candidate for privatisation next spring.

Saab-Scania and Ericsson to merge space operations

By John Burton in Stockholm

SAAB-SCANIA and Ericsson will merge their space technology operations in a move to improve their competitiveness in the growing European market for space equipment.

The new Swedish company, Saab Ericsson Space, will start operations on January 1 1992 and be based in Gothenburg with 360 employees and an initial turnover of SKr300m ($48m).

The venture will be 60 per cent owned by Saab-Scania, the vehicle and aerospace group, and the rest by Ericsson, the telecommunications concern.

Saab's space division is Europe's leading supplier of space computers, including onboard computers for the Ariane 4 and 5 launch rockets. It is also developing computers for the Hermes shuttle and Columbus space laboratory as well as the Spot-4 and ERS-2 global observation satellites.

Ericsson's space expertise concerns communications systems involving microwave technology and antennae. It is supplying this equipment for the ERS-2 satellite.

The formation of Saab Ericsson Space is seen as the first step towards closer co-operation among Swedish companies involved in space activities, including Volvo Flygmotor and the state-owned Swedish Space Corporation, which operates the Esrange space research centre in northern Sweden.

Sweden's two main space projects during the last decade were the Viking scientific satellite, which was launched in 1986, and the Tele-X telecommunications satellite.

After British Aerospace's flop

Charles Leadbeater, Norma Cohen and Richard Waters report

THE dismal British Aerospace rights issue, taken up by only 4.9 per cent of the company's shareholders, is not just a problem for BAe and its interim chairman, Sir Graham Day. It is also an embarrassment for Hoare Govett and Kleinwort Benson, the group's financial advisers, and casts doubt on plans other distressed companies may have been nurturing to raise capital through rights issues.

The rights issue was designed to strengthen British Aerospace. It became the instrument which exposed its frailty.

It was only because of the rights issue that the group drew up detailed forecasts which showed its 1991 profits would be half the £300m ($513m) it had been led to expect. The mishandling of the launch of the issue led to the departure of Sir Roland Smith, BAe's chairman. And ever since it was announced, BAe's strategy and management has been subjected to relentless criticism by investors and brokers.

Sir Graham Day: facing fresh troubles after the collapse of the rights issue

Sir Graham was not commenting yesterday. But Mr Dick Evans, BAe's chief executive, is unrepentant. This summer some directors wanted to delay the issue until next year, to allow time for the stock market to become gradually attuned to BAe's poorer performance. Mr Evans championed going ahead with an issue this autumn, to strengthen the balance sheet and allow the group to expand its banking facilities to hedge its exposure against the US dollar.

Mr Evans said: "The priority was to strengthen our capital base. We might have preferred to do it at a different time and price but the decision to go ahead with a rights issue now was correct."

BAe's advisers also defend the issue's timing. Mr Tim Shacklock, a Kleinwort director, said yesterday: "There are some decisions in life that are difficult to take – that was an easy one."

What followed was not an enjoyable experience, however, for managers or advisers. "It hasn't been like a rights issue – it's been like fighting a contested takeover," said Mr Shacklock. Investors were angry after the leaked news of the rights issue, and were unwilling to listen to the company's case for the issue in the weeks after the announcement.

In the first round of roadshows BAe held with its leading shareholders, it simply failed to convince them it had taken its problems in hand, according to fund managers.

One leading pension fund manager said: "We still didn't have a sense of what the strategy was, having sat through a long presentation." The company failed to reassure him that the very large cash outflow in the first half of the year would not continue.

Meanwhile, in presentations, the company did not at first seem to acknowledge the extent to which matters had gone wrong – a failure which only contributed to shareholder unease. "They should have come in and admitted 'this is a bit of a shambles'," said one institutional investor.

In a second round of roadshows, BAe began to talk more specifically about its operations. However, shareholders said these visits were selective, with several leading institutions reporting that they failed to merit a second visit.

Those who did, according to one large shareholder, heard BAe executives making forecasts of future redundancies and discussing the focusing of the group's efforts on three core businesses, aerospace, defence and cars.

That is not quite the message BAe is transmitting in public. In the medium run – by the mid-1990s – it has offered measures to deal with poorly performing business such as space and communications and improved margins at the Rover car group as the UK economy picks up. It promises improved commercial aircraft sales as the world economy recovers, the first profits from Airbus, the European aircraft consortium, and lucrative contracts worth perhaps £15bn over the next decade from new defence orders from the Saudi Arabian government.

Mr Evans denies that a more far-reaching reassessment of strategy is under way, designed to slim the group down to its core aerospace and defence activities. Nor does he think there is a case for further management changes.

He said: "The main task is to make sure management is not distracted. That means getting rid of some small, technologically interesting but very time-consuming businesses and finding a solution to businesses such as regional jets and satellites where the world market is overcrowded."

Four interested parties will determine whether the management will be allowed that long to deliver.

● Institutional investors. Mr Evans believes that although investors may have rejected the financial terms of the issue, they accept the medium-term strategy which lies behind it. In private, key shareholders seem less satisfied with what they have been told. Many remain worried that the group may be forced to return to shareholders for a further cash injection within the next three years. The company and its advisers say they have spent a great deal of time reassuring investors that BAe has other ways of raising cash, such as selling businesses once the market for disposals improves.

In the short-run, most of the institutions have become owners of the new shares because they were underwriters to the issue. BAe expects them to help stabilise the group by keeping their holdings, rather than selling them on.

The chances of more far-reaching management changes at BAe are low unless several institutions agree to push for it. With the company so weakened they may not want to see it further troubled, unless they feel there is no other option.

● Sir Graham Day, the former chairman of the Rover group may start to force a reconsideration of strategy. Although Sir Graham is only interim chairman, he expects to stick with the job for more than a year. Once he starts working on the group's plans he may force other executives to face up to the need for further change.

As yet, Sir Graham has shown great loyalty to the current management. He has said he expects strategy to vary only marginally from the plan to stick with most of BAe's main businesses.

In private, BAe executives admit that its medium-term aim over the course of the next few years should be to slim down to it what it does best, aerospace and defence projects, by eventually shedding property and cars. But this is a long term objective.

● A potential bidder might force BAe to change tack. But the General Electric Company, which is the only realistic candidate, has no appetite for a hostile bid. It does not want to sour relations with a key customer. It is also concerned there might be a financial black hole in BAe which it would not be able to spot if it launched a hostile bid.

● The group which really holds BAe's future in its hands is the Saudi Arabian royal family. Last week, the Saudi ambassador to the US suggested a new arms deal with the UK would be signed within the next couple of months. This extension to the Al Yamamah defence programme, which has already brought BAe more than £8bn in revenues, could underpin its cashflow for the rest of the decade.

The Saudi decision is far more important to the future of the company than the rights issue.

New Saudi orders would give the management the financial security they need to implement their plans. Without significant Saudi orders, BAe's crisis could deepen.

The company's executives will be hoping to do better in the desert than they did in the City of London.

INTERNATIONAL CAPITAL MARKETS

Treasuries soar on hopes of lower interest rates

By Patrick Harverson in New York and Sara Webb in London

AN unexpectedly weak report of consumer confidence sent US bond prices soaring across the board yesterday on hopes of a cut in interest rates.

In late trading, the benchmark 30-year bond was up 1¼ at $102½, yielding 7.901 per cent, one of the biggest one-day rises this year. Prices were also markedly firmer at the other end of the maturity range, with the two-year note up ⅛ at 100% and the yield down substantially at 5.782 per cent.

The market drew most of its strength from the sharp drop in consumer confidence reported by the Conference Board, whose index plummeted from 72.9 per cent in September to 60.4 per cent in October. Consumers' expectations of future confidence fell to their lowest levels since 1982. Analysts said that fears about employment prospects indicated the labour market remained deeply depressed.

The news prompted immediate speculation that the Federal Reserve would ease policy within the next few days. Moreover, analysts began talking about the Fed funds rate being lowered by 50 basis points, and not just 25 basis points as most observers have been predicting recently.

The Fed left the Fed funds rate alone yesterday, which confused the market because the rate was trading at 5⅛ per cent, below its 5¼ per cent target. Although the lack of intervention suggested the Fed was letting the rate fall – and, thus, easing – most analysts predicted that when the Fed eventually eases it would make sure the market was fully aware of its intentions.

The consumer confidence data overshadowed the release of third-quarter gross national product figures. GNP grew by 2.4 per cent, an increase in line with market expectations.

■ UK government bonds rose by more than half a point, helped by the combination of the Dutch draft treaty on economic and monetary union (Emu) and the strength of the US Treasuries.

The Dutch draft treaty on Emu allows any state whose parliament does not feel able to approve the irrevocable fixing of its currency to opt out by seeking exemption.

Traders said the proposal was well received in the gilt market as it is thought likely to reduce the chances of a Conservative party split on the issue of Europe.

In addition, the gilt market rose on speculation that changes to the funding rules will be announced at tomorrow's annual Mansion House speech in London by the Chancellor of the Exchequer to financial and business leaders, allowing the government to use Ecu bond issues to fund public expenditure rather than for its reserves.

The benchmark 11¾ per cent gilt due 2003/07 rose from its opening of 113¼ to trade at 113⅝ by late afternoon. Gains in shorter-dated gilts were much smaller, with the 10 per cent gilt due 1993 rising from 100⅛ to 100⅜.

■ GERMAN government bond futures contracts rallied following the US Treasury bond market's lead. The Liffe bund futures contract, which opened at 85.49, moved to a high of 85.77 and traded at 85.75 by late afternoon.

Traders said activity was concentrated in the futures market with little interest in cash bonds.

■ JAPANESE government bond futures edged up yesterday following an auction of Y800bn of 10-year government bonds, carrying a coupon of 6 per cent.

Traders had widely expected a coupon of 5.9 per cent. However, with a coupon of 6 per cent, the November issue marks a reopening of the No 144 government bond issue. The November issue is expected to be combined with the October 144 issue next year.

A total of Y472.42bn yen of the 10-year bonds were sold yesterday at an average price of 101.06 to yield 5.832 per cent.

The yield on the benchmark No 129 bond, which has a coupon of 6.4 per cent, opened at 5.845 per cent and closed in Tokyo at 5.86 per cent. Traders said the benchmark price slipped on hedge selling against the new No 144 bond issue.

● NIKKO Europe plans to enter the sterling government bond market by the end of March 1992, Reuter reports.

Mr Masao Inagaki, chairman, said: "We hope to start up by the end of our fiscal year, that is before the end of March. But it is dependent on Bank of England approval which we are in the process of applying for".

Nikko acquired banking licences in Switzerland, Germany and the Netherlands this year, ahead of the introduction in 1992 of a single European market.

"Our target is to be more international and not just a Japanese company with overseas offices," Mr Inagaki said. "Over the next five years, financial markets will become more international and accessible to outsiders."

"I am sure that in future the capital market will be worldwide. There will be more and more deregulation and the fence will be lower, making it easier for foreign companies to enter the Japanese market," he said.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		12.000	11/01	112.3084	-0.003	10.03	10.05	10.31
BELGIUM		9.000	08/01	99.4300	+0.400	9.08	9.09	9.13
CANADA *		9.750	12/01	108.3500	+1.350	8.79	9.09	9.28
DENMARK		9.000	11/00	100.4750	+0.350	8.93	8.93	9.09
FRANCE	BTAN	8.500	11/96	96.3371	+0.195	8.91	8.92	9.06
	OAT	9.500	01/01	104.8200	+0.600	8.73	8.78	8.84
GERMANY		8.25	09/01	99.4900	+0.370	8.32	8.23	8.29
ITALY		12.000	05/01	97.4600	+0.090	12.48	12.35	12.52
JAPAN	No 119	4.800	06/99	92.6341	+0.194	6.18	6.15	6.29
	No 129	6.400	03/00	103.1254	+0.144	5.84	5.84	5.95
NETHERLANDS		8.500	03/01	98.2200	+0.240	8.77	8.75	8.79
SPAIN		11.900	07/96	101.0000	+0.450	11.58	11.53	11.36
UK GILTS		10.000	11/96	101-03	+10/32	9.72	9.85	9.66
		10.000	02/01	101-25	+19/32	9.70	9.85	9.82
		9.000	10/08	95-00	+20/32	9.48	9.63	9.40
US TREASURY *		7.875	08/01	102-16	+29/32	7.50	7.62	7.53
		8.125	08/21	102-16	+45/32	7.90	7.97	7.87

London closing, *New York closing. Yields: Local market standard. Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on October 29

	Issued	Bid	Offer	Chg. day	Yield
U.S. DOLLAR STRAIGHTS					
ABBEY NATIONAL 8 7/8 93	150	103	103½	+⅛	6.46
ALBERTA PROVINCE 9 3/8 95	600	107¼	107½	+⅛	7.22
AUSTRIA 8 1/2 00	400	102⅝	103	+⅝	8.04
BANK OF TOKYO 8 3/8 96	100	102⅜	102¾	+⅛	7.70
BELGIUM 9 5/8 98	250	108¾	109¼	+⅜	7.88
BFCE 7 3/4 97	150	100¾	101¼	+¼	7.56
BNP 8 5/8 94	300	104⅝	105	-⅛	6.71
BP CAPITAL 9 5/8 93	150	103½	104¼	+⅛	6.49
CANADA 9 96	1000	106⅞	107¼	+⅜	7.08
CARCO 9 1/4 96	650	103	103⅜	+⅛	8.45
CCCE 9 1/4 95	300	106⅝	107	+⅛	6.94
COUNCIL EUROPE 8 96	100	102¼	102¾	+⅜	7.41
CREDIT FONCIER 9 1/2 99	300	108½	108⅞	+½	7.91
DENMARK 8 1/4 94	150	103¾	104¼	+⅛	6.72
DENMARK 9 1/4 95	1571	106⅝	107	+⅛	6.93
ECSC 8 1/4 96	193	103⅞	104½	+⅜	7.31
EEC 7 1/4 93	250	101¼	101½	+⅛	6.31
EIB 7 3/4 96	250	102	102⅜	+⅜	7.22
EIB 9 1/4 97	1000	107⅝	108	+½	7.63
ELEC DE FRANCE 9 98	200	105⅞	106¼	+⅜	7.78
EURO CRED CARD TST 9 94	325	104⅝	105¼	+⅛	7.21
EUROFIMA 9 1/4 96	100	106¾	107¼	+¼	7.53
EXPORT DEV CORP 9 1/2 98	150	108¼	108¾	+⅜	7.86
FINLAND 7 7/8 97	200	100⅞	101¼	+¼	7.65
FINNISH EXPORT 9 3/8 95	200	107	107½	+¼	7.29
FORD MOTOR CREDIT 9 1/2 93	300	103⅞	104⅜	+⅛	7.33
GEN ELEC CAPITAL 9 3/8 96	300	106⅝	107	+⅛	7.66
GMAC 9 1/8 96	200	104¼	104⅝	+⅝	7.95
HALIFAX 9 1/2 93	200	104¼	104¾	+⅛	6.64
IBM WORLD TRADE 7 5/8 93	150	101⅞	102½	+¼	6.74
IND BK JAPAN FIN 7 7/8 97	200	100	100½	+⅜	7.86
INTER AMER DEV 7 5/8 96	200	101	101½	+⅜	7.37
ITALY 8 1/2 94	1500	104⅞	105¼	+⅛	6.65
JAPAN DEV BK 8 94	150	103¼	103⅝	+¼	6.55
KANSAI ELEC PWR 10 96	350	108⅝	109⅛	+⅜	7.61
LTCB 8 5/8 93	150	102½	103	+⅛	6.60
NEW ZEALAND 8 93	100	102¼	102¾	+⅛	6.55
NIPPON CRED BK 9 3/4 93	150	105	105½	+⅛	6.92
NIPPON TEL & TEL 9 3/8 95	200	106⅜	107	+¼	7.14
NORDIC INV BANK 9 93	200	104⅛	104½	+¼	6.29
ONTARIO HYDRO 11 5/8 94	200	109⅝	110⅜	+¼	6.88
OSTER KONTROLLBANK 8 1/8 93	200	102½	102⅞	+⅛	6.14
PETRO-CANADA 7 1/4 96	200	99½	100⅛	+¼	7.37
QUEBEC HYDRO 9 3/4 98	150	107⅞	108½	+⅛	8.21
QUEBEC PROV 9 98	200	103⅞	104⅜	+½	8.18
SAINSBURY 9 1/8 96	150	105⅝	106	+⅜	7.76
SAS 10 99	200	104⅝	105½	+⅛	9.18
SBAB 9 1/2 95	500	106¾	107¼	+⅛	7.27
STATE BK STH AUST 9 1/4 93	100	103¼	103⅞	+⅛	6.47
SUMITOMO BK CAP MKT 9 3/8 93	150	104⅝	105⅛	+¼	6.88
SWEDEN 8 1/8 94	150	103¼	104	+⅛	6.74
SWEDISH EXPORT 9 5/8 93	100	104⅛	104½	+¼	6.23
TOKYO METROPOLIS 8 1/4 96	200	103⅜	103¾	+¼	7.45
WORLD BANK 8 3/8 99	1500	103⅞	104	+½	7.86
WORLD BANK 8 3/4 97	1500	106½	106¾	+⅜	7.39
XEROX CORPN 8 3/8 96	100	100⅝	101¼	+½	8.21
DEUTSCHE MARK STRAIGHTS					
BAPROVEN 11 1/8 95	200	102¼	102½		10.39
BULGARIAN TRADE BK 8 1/2 96	200	85¼	85¾		12.82
DEUTSCHE FINANCE 7 1/2 95	1000	97⅞	97⅞	+⅛	8.26
EIB 5 3/4 98	400	87⅝	87⅞	-⅛	8.30
EIB 6 7/8 95	300	96¼	96⅝		7.99
EUROFIMA 6 1/4 98	400	89¼	89¾		8.42
FERRO DEL STAT 5 3/8 93	500	96⅛	96⅜	+⅛	8.85
FIRST INTERSTATE 5 3/4 96	100	83⅞	84⅜		10.42
IND BK JAPAN FIN 5 5/8 96	200	88¼	88⅝		8.93
IND DEV BK INDIA 6 3/8 94	200	89½	89⅞	-½	10.45
LUFTHANSA INT FIN 5 7/8 98	500	87⅛	87⅝	-⅛	8.53
NACIONAL FINANCIERA 11 95	150	101	101½		10.61
NAT BK HUNGARY 8 96	200	90⅞	90⅝		10.57
QUEBEC HYDRO 6 3/4 99	300	89½	89⅞		8.72
SWEDEN 6 1/8 98	300	89	89	+⅛	8.41
VENEZUELA 8 1/4 93	100	96	96¼	-½	10.52
WORLD BANK 0 15	2000	17¼	17¾		7.42
WORLD BANK 5 3/4 96	300	90½	90¾	-¼	8.42
WORLD BANK 7 1/8 95	500	96⅞	97⅛	-⅛	8.25
SWISS FRANC STRAIGHTS					
ASIAN DEV BANK 6 10	100	85½	86½		7.45
AUSTRIA 4 5/8 98	100	86½	87	-½	7.38
CHUBU ELEC POWER 6 3/4 01	300	98¾	99¼		6.93
COUNCIL EUROPE 4 3/4 98	250	87½	87¾		7.29
EEC 5 1/2 00	100	88½	89½		7.27
EIB 6 1/2 98	600	97½	97½		6.97
ELEC DE FRANCE 7 1/4 06	100	100¼	100½	-¼	7.22
FINLAND 5 3/8 95	150	93½	94		7.31
GENERAL MOTORS 7 1/2 95	100	100¾	101	+¼	7.22
JAPAN DEV BK 5 1/2 94	100	95	95½		7.96
KOBE 6 3/8 01	240	95	96	-¼	7.10
NEW ZEALAND 4 7/8 99	200	84½	85		7.74
QUEBEC HYDRO 5 08	100	75	77	+1	7.74
WORLD BANK 5 03	150	81¾	82¼	+½	7.37
WORLD BANK 7 01	600	100¾	100¾	+¼	6.90
YEN STRAIGHTS					
AUSTRIA 4 3/4 94	30000	97¼	98		5.85
CREDIT FONCIER 5 1/4 94	20000	97¾	98¼		6.05
DENMARK 7 95	40000	103½	103⅞		5.90
EIB 4 5/8 94	40000	97⅜	97⅝	+⅛	5.76
FINLAND 6 3/4 96	50000	102⅝	102⅞		6.04
GENERAL ELECTRIC 5 3/4 93	35000	99¼	99¾		6.28
INTER AMER DEV 7 1/4 00	30000	108½	108⅞		5.94
KANSAI ELEC PWR 4 5/8 94	60000	96⅝	96⅞		6.11
NIPPON TEL & TEL 5 7/8 96	50000	99⅝	99⅞		5.96
NORWAY 5 1/8 95	50000	97⅜	97⅝		5.90
SNCF 6 3/4 00	30000	105½	105⅞		5.89
SWEDEN 5 5/8 95	20000	98¾	99¼		5.99
WORLD BANK 6 3/4 00	50000	105⅝	105⅞		5.87

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINS INT 7 94 LFr	600	94	95		9.58
KREDIETCORP 7 93 LFr	1000	95⅞	96⅝	-⅛	9.77
WORLD BANK 8 96 LFr	1000	96½	97⅛	+⅛	8.96
BCE INC 9 5/8 93 C$	300	101⅝	102	+⅛	8.54
BELL CANADA 10 5/8 99 C$	150	105⅝	105⅞	+⅜	9.59
BRITISH COLUMBIA 9 1/4 93 C$	150	101	101⅝	+⅜	8.36
EIB 10 1/8 98 C$	130	103⅞	104⅜	+⅛	9.37
ELEC DE FRANCE 9 3/4 99 C$	275	102½	103	+⅛	9.28
FORD CREDIT CANADA 10 94 C$	100	102⅝	103	+⅛	8.92
GENERAL ELECT CAP 10 1/4 93 C$	175	103¼	103¾	+⅛	8.40
ONTARIO HYDRO 10 7/8 99 C$	500	106¼	106½	+⅜	9.63
OSTER KONTROLLBANK 10 1/4 99 C$	150	105	105½	+⅜	9.30
QUEBEC PROV 10 1/2 98 C$	200	104½	104⅞	+½	9.61
ROYAL TRUSTCO 10 1/4 93 C$	100	101¼	101¾		9.37
SWEDEN 9 3/4 93 C$	250	101⅞	102¼	+⅛	8.31
BELGIUM 9 1/8 96 Ecu	1250	100⅞	101¼	+⅛	8.99
CNT 7 3/8 93 Ecu	250	96	96½	-¼	10.05
CREDIT LYONNAIS 9 96 Ecu	125	98⅛	99⅛		9.50
DENMARK 7 5/8 96 Ecu	250	92⅜	93⅜	-¼	9.82
EEC 7 5/8 94 Ecu	200	96⅞	97⅜	+⅛	9.14
EIB 10 97 Ecu	1125	104⅞	104⅞	+⅛	8.82
ITALY 10 3/4 00 Ecu	1000	109⅛	109⅝	+½	9.07
UNITED KINGDOM 9 1/8 01 Ecu	2750	101⅜	101⅝	+⅝	8.89
BP AMERICA 12 1/4 96 A$	100	106⅛	107⅛		10.21
COMM BK AUSTRALIA 13 3/4 99 A$	100	115½	116¼	-⅛	10.68
COUNCIL EUROPE 13 93 A$	50	103¾	104	+⅛	10.16
EKSPORTFINANS 12 3/8 95 A$	75	107⅞	108⅜		9.63
FORD CRED AUST 13 93 A$	50	102⅞	103⅞		10.80
MCDONALDS CANADA 15 95 A$	100	114⅛	114⅝	+⅛	10.14
NAT AUSTRALIA BANK 14 3/4 94 A$	150	109⅜	109⅞		9.91
STATE BK NSW 14 1/4 99 A$	100	116⅝	117	-⅛	10.99
VOLKSWAGEN INTL 15 94 A$	100	110	110½		10.15
ABBEY NATL TREAS 13 3/8 95 £	100	107½	107⅞	+⅛	10.53
BARCLAYS JERSEY 9 1/2 93 £	250	98⅞	99⅜		10.29
BRITISH GAS 12 1/4 95 £	300	106½	106⅞	+½	10.27
DEUTSCHE BK FIN 11 94 £	225	101⅜	101⅞	+⅜	10.16
EIB 10 97 £	386.5	99¾	100	+⅛	10.04
FORD CREDIT FUNDING 9 5/8 93 £	50	97⅞	98⅜		11.28
INTER AMER DEV 11 3/8 95 £	75	103½	104	+⅛	10.12
ITALY 10 1/2 14 £	400	99¼	99⅞	+⅜	10.57
LAND SECS 9 1/2 07 £	200	85¼	85¾	+½	11.55
LEEDS PERMANENT 9 1/4 93 £	50	98	98½	+⅛	10.61
NORWAY 10 1/2 94 £	200	100¾	101⅛	+⅛	10.06
ROLLS-ROYCE 9 5/8 93 £	150	98	98½		10.92
SAINSBURY 10 7/8 93 £	100	100⅜	100⅞		10.68
SKANDINAVISKA ENSK 13 1/8 95 £	100	106	106½	+⅛	10.83
WORLD BANK 11 1/4 95 £	100	103¼	103¾	+⅛	10.07
ABBEY NATIONAL 0 96 NZ$	100	63¼	64¼		9.74
TELECOM NZ O/S FIN 13 1/8 93 NZ$	75	106⅛	107⅛	-⅛	9.13
AIDC 7 7/8 93 FFr	600	97⅜	97⅞		9.42
CEPME 10 95 FFr	2000	102⅛	102⅜		9.22
EURATOM 7 5/8 98 FFr	500	92¾	93¾	-½	9.11

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
ALBERTA PROVINCE 1/32 93	500	100.18	100.28	6.5156
ALLIANCE & LEICS 0.08 94 £	300	99.55	99.66	10.6425
BANCO ROMA 0.03 01	200	91.55	92.65	6.4675
BANCO SANTO SPIRITO 93	200	99.57	99.70	5.6250
BELGIUM 1/16 97 DM	500	99.98	100.09	9.5000
BFCE -0.02 96	350	99.99	100.09	6.1050
BNP 05	300	95.25	96.20	5.5625
BRITANNIA 1/10 96 £	150	99.15	99.34	10.6625
CCCE 06 ECU	200	99.94	100.04	9.7500
CITIZENS FED 0.15 96	100	99.42	99.88	5.9625
COMMERZBK O/S FIN 93	200	100.00	100.11	5.8750
DENMARK -1/8 96	1000	99.75	99.85	5.6875
DRESDNER FINANCE 1/32 98 DM	1000	99.94	100.03	9.5156
ELEC DE FRANCE 1/8 99	400	100.46	100.91	6.0625
FERRO DEL STAT 94	200	100.75	100.98	5.9375
HALIFAX 1/10 94 £	200	99.95	100.05	11.1000
IRELAND 98	300	99.52	99.62	6.4400
ITALY 00	500	100.59	100.68	6.3750
MITSUI FIN ASIA 1/8 96	100	99.45	99.55	5.9375
MORGAN (JP) 1/4 97	250	99.00	99.79	6.0000
NAT WEST FIN 3/16 05	400	91.66	92.78	5.5000
NEW ZEALAND 93	500	99.98	100.08	5.7500
RENFE 98	500	99.90	100.00	6.0625
SOCIETE GENERALE 96	300	99.44	99.53	5.6250
STATE BK VICTORIA 0.05 99	125	98.45	98.70	6.4875
UNITED KINGDOM -1/8 96	4000	99.95	99.98	5.2500

CONVERTIBLE BONDS	Issued	Conv. price	Bid	Offer	Prem.
BURTON GROUP 4 3/4 01 £	110	2.38	124½	126⅛	
CHUBB CAPITAL 6 98	250	86	99⅞	100¾	+30.31
DAI-ICHI KANGYO 3 7/8 04	300	3251.8	104⅛	105¼	+20.92
EASTMAN KODAK 6 3/8 01	300	50.67	99	100¼	+10.86
GOLD KALGOORLIE 7 1/2 00	65	1.0554	76⅛	77¾	+43.97
HANSON 9 1/2 06 £	500	2.5875	99	99⅞	+20.12
HAWLEY 6 02 PREF	400	19.1	83⅞	86⅝	
HILLSDOWN 4 1/2 02 £	150	4.16	114⅛	115⅞	
LAND SECS 6 3/4 02 £	84	6.72	85⅛	86⅞	+13.61
LASMO 7 3/4 05 £	90	6.64	79½	80⅞	+39.47
MITSUI BANK 2 5/8 03	200	2337½	100⅞	102⅛	+18.95
MOUNT ISA FIN 6 1/2 97	100	2.283	90⅝	91¾	+15.14
OGDEN 6 02	85	39.077	74⅛	75⅝	+51.25
SMITH & NEPHEW 4 02 £	90	1.775	117⅛	118⅞	+56.69
SUMITOMO BANK 3 1/8 04	300	3606.9	78¼	79⅝	+17.67
TEXAS INSTRUMENTS 2 3/4 02	300	82⅞	86½	87¾	
THORN EMI 5 3/4 04 £	103	7.45	117⅝	118⅞	+9.38

* No information available - previous day's price

‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Japanese brokerages show Y70bn net loss

JAPAN'S scandal-hit securities industry has plunged into the red for the first time since 1972, running up an industry-wide net loss of almost Y70bn ($530.30m) in the six months to September, Reuter reports.

The Tokyo Stock Exchange said Japan's 124 brokerages posted a total net loss of Y69.49bn in the six months, against a net profit of Y199.16bn in the corresponding 1990 period. Analysts attributed the sharp fall to a prolonged slump in Tokyo share prices and scandals in which many brokerages, including Japan's so-called big four, improperly compensated favoured clients for investment losses.

The exchange said the sector's total current profit fell to just Y7.16bn from Y373.36bn in 1990.

Among Japan's big four brokerages, Yamaichi Securities saw its parent current profit, before tax, turn into a loss of Y5.42bn in the six months.

The rest of the big four – Nomura, Daiwa and Nikko – recorded falls in current profits ranging from 64 per cent to 71 per cent.

● JAPAN'S securities industry is moving to set stricter trading rules, designed to prevent a recurrence of scandals involving improper loss compensation.

A Japan Securities Dealers Association (JSDA) spokesman said voluntary rules established by the JSDA, an industry regulatory body, would be submitted to the Ministry of Finance (MoF), as soon as possible, probably before mid-November.

Industry sources said the JSDA would limit the amount of securities a single investor could buy in a public offering at a market price. Price range limits will also be established for bonds traded on the over-the-counter (OTC) market.

CTC climbs 39% on reduced costs

By Leslie Crawford in Santiago

COMPANIA de Teléfonos de Chile (CTC), the only Chilean company listed in New York, posted a 39 per cent increase in profits for the first nine months of the year.

The telecommunications company, controlled by Telefónica of Spain, made after-tax profits of 34.4bn pesos ($96.5m) on sales of 120bn pesos.

Much of the company's increased profitability has come from reducing financial costs. CTC has an ambitious $1.5bn investment programme for 1991-1996 which aims to double the number of installed lines in Chile to 1.7m.

Over the past 18 months, the company has reduced short-term debt by issuing about $85m-worth of long-term bonds on the Chilean market. The ADR rights issue in New York raised $100m.

CTC's borrowing requirements for 1992-93 will be covered when it signs a $115m syndicated credit with European banks in November. The loan was put together by the World Bank's International Finance Corporation, which also lent $80m to CTC last year.

Mr Jaime Charles, CTC's financial vice-president, said the company was not considering another rights issue at present. CTC was, however, considering a listing on the Madrid and Tokyo stock exchanges. The listings would be useful if the company decided to tap the Eurobond market next year.

ChinTung to sell 25% stake in brokerage

CHINTUNG Holdings, Standard Chartered Bank's brokerage arm, has agreed to sell its 25 per cent stake in a Thai securities firm to Seamico, a Thai investment bank, Reuter reports.

ChinTung portrayed its sale of Chartered ChinTung Ratta Securities as a strategic move, enabling it to look for new opportunities in the Thai market. The company said the group aimed to beef up its representative office in Bangkok, which was established in 1988 to conduct research on the Thai market.

ChinTung purchased the brokerage stake in 1988. The remainder is owned by Thai investors who have also agreed to sell their share to Seamico. ChinTung tried unsuccessfully in February to obtain a Thai securities license.

● THAILAND will grant mutual fund management licences to authorised private brokers and firms. This will break a long-standing monopoly of The Mutual Fund

INTERNATIONAL CAPITAL MARKETS

Managers plan closed-end Korean funds

By Sara Webb

WITH the opening up of the Korean stock market to direct foreign investment due to take place at the beginning of January, a number of foreign fund managers are preparing to launch closed-end Korean funds in 1992.

INTERNATIONAL EQUITY ISSUES

Fund managers hope the funds will attract money from a broad range of international investors. Investors have not been able to own Korean equities directly and have tended to use Korean convertible bonds and country funds in the past in order to achieve exposure to the Korean market.

But news that three Korean investment companies plan to launch country funds listed offshore ahead of the stock market's opening has irked some foreign fund managers. The foreign fund managers are worried there may be insufficient investor appetite to take up between $500m and $600m of new funds launched over the next few months.

Schroder Investment Management, Scudder Stevens, Drayton (part of Invesco MIM), and Kleinwort Benson are interested in launching Korean funds investing in Korean equities as well as Korean offshore instruments such as funds, convertible bonds or bonds with warrants.

However, some of the fund managers are worried the Korean investment companies will be able to launch their funds before January. They also point out the funds managed by Korean investment companies will count as domestic funds and therefore will be able to invest freely in Korean equities, whereas the foreign-managed funds will be subject to certain restrictions. Foreigners will be allowed to buy up to only 10 per cent of the outstanding shares of most companies on the stock exchange.

Three Korean investment management groups – Citizen, Korea Investment Trust Company (KITC) and Daehan Investment Trust Company (DITC) – are planning to launch funds of up to $100m, each listed outside Korea.

The lead managers for the three funds are understood to be BZW, Kleinwort Benson and Schroder Investment Management respectively. Citizen, KITC and DITC already manage several listed and unlisted Korean funds.

A steady stream of Korean companies is scheduled to tap the international equity markets in the run-up to the opening of the Korean stock market as companies are keen to raise money from overseas investors. Yesterday, Ssangyong Cement Industries launched a $70m convertible bond and Kia Motors is due to launch a $100m global depository receipts offering next month.

S Korean market opens

By John Ridding in Seoul

BARINGS Securities of the UK and Hong Kong-based Jardine Fleming yesterday became the first foreign securities companies to receive approval to set up branches in South Korea.

Branch status will allow them to conduct brokerage business in South Korea, which opens its market to direct foreign investment in January. Two other foreign securities houses – Merrill Lynch and Citicorp Scrimgeour Vickers of the US – are currently submitting branch applications. They are expected to be approved by the year-end.

Upgrading from representative office to branch status is expensive and requires a capital commitment of Won10bn ($13.3m). Additional licences, for dealing and underwriting require a further Won5bn each. But, branches will enjoy advantages in broking and commission splits.

Drawing up the battle lines for regulatory control

Patrick Harverson on Congress's attempts to impose reforms on the US government securities market

TO accommodate demands from Congress for an overhaul of the US government securities market in the wake of the Salomon Brothers' bid-rigging scandal, the Treasury has unveiled reforms to its auction process aimed at shaking up the cosy world of primary dealers.

The most radical element in a package of reforms is the decision to allow all brokers to bid for newly-issued securities on behalf of customers, and not just the 39 big broking houses and commercial banks that, as primary dealers, currently enjoy exclusive access to the Treasury note and bond auctions.

The Treasury also plans to let anyone – again, not just the dealers – to bid in the auction without putting up a deposit or guarantee, and is raising the amount of notes or bonds an investor can buy on a non-competitive basis – where the bidder buys blind at the average price.

These changes are a response to criticisms from Capitol Hill that the clubby relationship between the Treasury, the Federal Reserve and the primary dealers created a climate in which a member of the dealer community felt it could break the rules with impunity. Congressmen have repeatedly attacked the Treasury and the Fed for handing responsibility for selling the nation's debt to a small coterie of powerful Wall Street insiders.

Mr Jerome Powell, assistant secretary at the Treasury, announced the changes – which will come into effect at the next auction, on November 5 – at a hearing of the House of Representatives' sub-committee on telecommunications and finance. The sub-committee had called senior officials from the regulatory agencies to explain what they had done, or what they proposed to do, to prevent a re-occurrence of Salomon's illegal activities.

The Treasury and the Fed had already made some changes, including improving co-operation between the two agencies and the Securities and Exchange Commission and accelerating the introduction of an automated system for selling government securities.

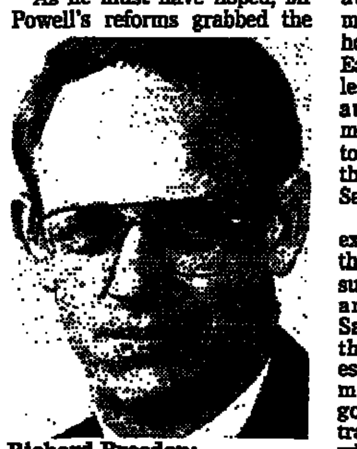
While the measures Mr Powell unveiled on Friday are at least new, their impact on the workings of the market will probably be muted. Few Wall Street analysts expect to see a rush of new securities houses or banks offering their services as primary dealers in the auctions, chiefly because the amount of business they might win would not be worth the expense or bother. It is also difficult to imagine why institutional customers would jump ship from the established primary dealers to firms with no experience of bidding in billion-dollar auctions.

The odds on the Treasury making wholesale changes to the auction system were always low. Radical reform would have been an implicit admission by the Treasury and the Fed that the system was broken and in need of repair. Having discovered no evidence of widespread manipulation among primary dealers, the Treasury has proffered minor, mostly technical changes. As Mr Powell said, they are intended to "attract more bidders and open up the marketplace."

The symbolic importance of the reforms, however, cannot be ignored. The changes suggest the Treasury can envisage a time when primary dealers no longer exist, when any firm with a clean reputation and sufficient capital can act as a middleman between government and investor.

Yet one of the most valuable privileges of the dealer franchise – the ability to trade securities with the Fed during its regular dealings in the markets – has been left untouched. If the Treasury were to let the Fed deal with whoever it wanted, then the primary dealer system would truly be rendered redundant.

As he must have hoped, Mr Powell's reforms grabbed the headlines, leaving the more serious issue to emerge from last week's hearing – the competition between the federal authorities for the right to regulate the government securities markets – all but ignored.



Richard Breedon: embraced the Markey bill

The turf war over who oversees the bond markets has been hotting up in recent weeks and it went public at Friday's hearing. The Treasury and the Fed want to preserve the status quo, which means hanging on to their exclusive authority over the bond markets. The status quo, however, has already changed. Earlier this month, the House let the Treasury's rule-making authority over the bond markets lapse, when it refused to join the Senate in extending the life of the 1986 Government Securities Act.

The House blocked the act's extension because it believed the Treasury and the Fed did such a bad job in preventing, and then discovering, Salomon's misdemeanours, that regulatory authority, especially over the secondary market where $100bn of government securities are traded daily, should be shared with the SEC, which it believes has a better record of policing markets and rooting out wrongdoing.

A bill drawn up by Mr Edward Markey, the chairman of the finance and telecommunications sub-committee, is expected to go before the House soon. The bill would grant the SEC broad new regulatory powers over the bond markets. The SEC would be empowered to oversee the internal controls of bond-trading firms, large trader or position reporting, sales practices, and the dissemination of bond price information.

Significantly, Mr Richard Breeden, chairman of the SEC, has embraced the Markey bill. But Treasury and Fed officials have greeted the proposed legislation coolly and in some cases with outright opposition.

The battle over who regulates the government securities market is now well under way, but it is too early to tell who will come out triumphant. The politicians, still outraged at Salomon's behaviour and the failure of the Treasury's hands-off approach to market regulation, are determined to see that the SEC joins in the policing of the world's biggest financial market. As Mr Markey bluntly told the assistant secretary at the Treasury last week: "Before the end of the year you will have a new law on the books that you will work under."

Strong demand for two Canadian dollar deals

By Tracy Corrigan

A STRONG rally in the Canadian government bond market boosted trading in two new Eurobond issues denominated in Canadian dollars.

INTERNATIONAL BONDS

Toyota Motor Credit Corporation and the Royal Bank of Canada each raised C$150m of six-year bonds. The Toyota deal met stronger demand, due to the more attractive name, but both issues fared well, although their spreads widened due to the rally in the underlying government bond market.

The Canadian government bond market firmed as much as a point yesterday after a spate of economic data which pointed to continuing economic recession. Consequently, the Canadian market out-performed the US market, which also rallied.

The yield margin between the Canadian and US markets has now narrowed to 126 points, the lowest level for several years, tightening 7 basis points yesterday. The narrowing of that spread, coupled with the strength of the Canadian dollar against European currencies this year, has fuelled record supply of Canadian dollar paper.

The pace of new issue activity is likely to slow as most of the largest borrowers (the Canadian provinces) have all but completed their funding for this year.

In addition, investors may soon decide spreads are unlikely to tighten much further, and begin to reverse those trades.

But dealers argue that there are still good reasons to invest in Canadian dollar securities, which still offer high real interest rates.

Meanwhile, the appetite for recent D-Mark Eurobonds is proving rather faint. A DM500m deal for LKB Baden Wuerttemberg launched yesterday through Deutsche Bank was considered expensive as bund yields are at comparable levels.

Elsewhere, Great Portland Estates, the UK property company, raised £100m through an issue of secured debentures due 2021, via Baring Brothers.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Ssangyong Cement Ind.(b)§	70	(3-3½)	100	2005	2½/1½	Ssangyong Secs.Europe
CANADIAN DOLLARS						
Toyota Motor Credit Corp(a)†	150	9	101⅞	1997	1⅞/1.6	Hambros Bank
Royal Bk of Canada (London)(a)†	150	9⅛	101.275	1997	1⅞/1.775	RBC Dominion Secs.Int.
D-MARKS						
LKB Baden Wuer'berg Fin.(a)†	500	8¼	102⅛	2001	2½/1½	Deutsche Bank
Fiat Finance & Trade(c)†	300	9	101⅜	1996	2/1¼	Deutsche Bank
LIRE						
Westl.B Fin.N'lande(a)†	150bn	11¾	101⅞	1996	1⅞/1¼	Bca.Nazionale d'Lavoro
SWISS FRANCS						
Aisugi Nylon Ind.(d)★★§	290	6	100	1995	-	SBC
Tsuzuki Denki Kogyo(e)★★§	70	4½	100	1995	-	Credit Suisse

★★Private placement. §Convertible. ¶With equity warrants. †Floating rate note. †Final terms. a) Non-callable. b) Callable from 1/1/94 at 104% declining 1% annually. Put option 14/11/96 to yield 7⅝-7¾%. c) Issue launched July. Amount increased from DM200m. Non-callable. d) Coupon payable semi-annually. Non-callable. e) Callable 14/11/93 at 101% declining ½% annually.

CBOT sets launch date for new products

THE Chicago Board Options Exchange, the world's largest options market, has set a launch date of November 8 for its new capped options products on the Standard & Poor's 100 and 500 stock indices.

Approval for the products was granted by the Securities and Exchange Commission on Monday, writes Barbara Durr.

Caps, as the new products are called, will give investors the right to bet on a predetermined upward or downward movement of either index. Caps will automatically be exercised if the underlying index closes at or above the capped price for calls, or at or below the capped price for puts. Caps for the S&P's 100 index will be listed with four months to expiration, those for the S&P 500 with six months to expiration.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section

	Equity groups & sub-sections	Tue Oct 29 1991 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1991 to date	Mon Oct 28 Index No.	Fri Oct 25 Index No.	Thu Oct 24 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (181)	813.89	+0.1	9.41	5.97	13.27	31.79	813.15	802.95	805.68	689.05
2	Building Materials (23)	990.96	+1.1	7.47	6.29	17.64	41.35	980.35	966.32	972.42	922.56
3	Contracting, Construction (30)	1061.93	+0.1	8.50	6.92	16.18	49.81	1060.81	1051.79	1057.59	1122.70
4	Electricals (11)	2485.95	....	8.79	5.31	14.41	84.23	2486.19	2461.85	2489.54	1839.55
5	Electronics (25)	1707.45	....	11.12	5.58	11.37	51.73	1706.53	1683.13	1704.82	1551.13
6	Engineering-Aerospace (8)	353.00	-1.1	15.87	7.35	7.60	18.52	356.86	354.02	355.62	409.48
7	Engineering-General (43)	487.97	+0.3	10.03	5.20	12.28	16.58	486.63	483.10	483.25	352.62
8	Metals and Metal Forming (9)	434.31	-0.1	15.08	8.16	8.05	18.43	434.89	432.08	427.71	396.24
9	Motors (12)	341.71	+0.2	6.95	7.05	19.69	17.56	340.96	339.48	336.01	264.22
10	Other Industrial Materials (20)	1581.22	-0.3	7.98	5.15	14.88	57.59	1586.38	1556.73	1559.50	1129.87
21	CONSUMER GROUP (190)	1561.53	....	7.32	3.57	16.90	34.04	1562.32	1537.66	1539.11	1176.85
22	Brewers and Distillers (22)	1929.35	-0.8	7.99	3.49	15.24	38.33	1945.25	1922.96	1924.67	1462.72
25	Food Manufacturing (19)	1199.23	-0.6	9.46	4.17	13.08	29.98	1206.68	1190.04	1193.06	999.79
26	Food Retailing (17)	2343.03	-2.4	9.39	3.47	13.92	52.15	2400.57	2379.28	2424.49	2249.13
27	Health and Household (23)	3961.29	+2.2	5.10	2.39	22.50	61.87	3875.90	3765.58	3714.50	2403.19
29	Hotels and Leisure (24)	1337.49	....	7.62	5.26	16.21	45.61	1337.65	1320.73	1321.43	1187.29
30	Media (26)	1497.58	-0.6	7.19	4.74	18.18	44.40	1505.90	1486.70	1497.36	0.00
31	Packaging, Paper & Printing (17)	759.07	+0.4	7.40	4.34	16.40	23.54	756.14	753.06	758.46	478.66
34	Stores (33)	1007.96	-1.0	7.43	3.68	17.62	20.52	1017.67	1006.60	1015.64	786.10
35	Textiles (9)	645.16	+0.1	7.17	4.82	17.70	15.49	644.73	636.72	635.97	416.36
40	OTHER GROUPS (110)	1255.82	-0.1	9.57	5.16	13.14	36.02	1256.72	1238.85	1248.84	943.13
41	Business Services (12)	1407.60	+0.5	7.58	4.64	16.40	39.29	1400.18	1376.46	1386.24	0.00
42	Chemicals (21)	1427.53	-0.8	7.06	5.07	17.48	48.39	1439.08	1416.31	1420.57	983.49
43	Conglomerates (11)	1471.05	-0.5	9.84	7.13	12.32	38.87	1478.85	1452.55	1465.88	1227.84
44	Transport (13)	2328.92	+0.2	7.34	4.87	16.86	68.02	2323.98	2287.65	2292.51	1821.29
45	Electricity (16)	1204.53	+0.2	14.58	5.40	8.94	27.53	1201.97	1189.00	1204.95	0.00
46	Telephone Networks(4)	1550.07	+0.5	9.67	3.91	13.54	28.34	1543.07	1513.01	1522.27	1046.76
47	Water(10)	2339.90	+1.5	17.45	6.58	6.34	118.37	2304.56	2294.36	2325.09	1984.00
48	Miscellaneous (23)	1793.94	-1.4	5.45	5.49	25.40	70.17	1820.17	1814.52	1839.68	1484.75
49	INDUSTRIAL GROUP (481)	1279.44	....	8.43	4.53	14.79	34.81	1279.84	1261.05	1265.71	985.70
51	Oil & Gas (19)	2413.82	-0.2	10.83	5.76	12.20	93.60	2419.27	2393.26	2409.77	2275.90
59	500 SHARE INDEX (500)	1376.74	....	8.73	4.68	14.41	39.49	1377.49	1357.94	1363.49	1091.25
61	FINANCIAL GROUP (91)	773.51	-0.5	-	6.05	-	32.04	777.45	765.51	771.30	657.79
62	Banks (9)	910.72	-1.0	4.58	5.86	41.32	37.46	920.18	904.10	910.31	685.51
65	Insurance (Life) (7)	1435.27	-0.5	-	5.90	-	63.68	1441.79	1415.08	1432.98	1245.85
66	Insurance (Composite) (6)	567.98	-0.2	-	7.73	-	32.94	569.20	561.11	574.44	561.93
67	Insurance (Brokers) (9)	1109.95	+0.4	7.40	6.11	17.69	43.14	1105.62	1104.93	1108.36	874.46
68	Merchant Banks (7)	479.73	+0.1	-	4.40	-	13.08	479.18	476.07	474.92	339.63
69	Property (36)	894.55	+0.1	6.05	5.20	23.50	24.74	893.90	876.97	872.76	901.45
70	Other Financial (17)	256.73	-0.1	11.13	7.16	11.28	11.08	257.04	256.78	257.31	242.16
71	Investment Trusts (70)	1232.06	+0.2	-	3.51	-	28.89	1229.54	1221.93	1225.05	998.66
99	ALL-SHARE INDEX (661)	1232.39	-0.1	-	4.82	-	37.18	1233.69	1216.26	1221.71	985.87

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Oct 28	Oct 25	Oct 24	Oct 23	Oct 22	Year ago
FT-SE 100 SHARE INDEX♣	2553.3	-5.2	2577.9	2548.7	2558.5	2514.7	2528.3	2561.1	2559.5	2033.9

FIXED INTEREST

	PRICE INDICES	Tue Oct 29	Day's change %	Mon Oct 28	Accrued interest	xd adj. 1991 to date
	British Government					
1	Up to 5 years (27)	121.98	+0.13	121.81	1.88	10.20
2	5-15 years (28)	134.35	+0.43	133.78	1.54	11.84
3	Over 15 years (8)	144.03	+0.66	143.08	2.45	10.60
4	Irredeemables (6)	156.17	+0.73	155.04	-0.06	13.45
5	All stocks (69)	132.85	+0.36	132.37	1.74	11.33
	Index-Linked					
6	Up to 5 years (2)	166.45	+0.10	166.29	0.29	3.16
7	Over 5 years (9)	149.31	+0.15	149.08	0.72	3.83
8	All stocks (11)	150.54	+0.14	150.33	0.65	3.81
9	Debs & Loans (61)	113.30	+0.34	112.92	1.79	9.21

	AVERAGE GROSS REDEMPTION YIELDS		Tue Oct 29	Mon Oct 28	Year ago (approx.)
	British Government				
1	Low	5 years	8.66	8.69	10.52
2	Coupons	15 years	9.45	9.52	10.81
3	(0%-7¾%)	20 years	9.45	9.52	10.82
4	Medium	5 years	9.73	9.80	11.44
5	Coupons	15 years	9.59	9.67	11.25
6	(8%-10¾%)	20 years	9.55	9.62	11.18
7	High	5 years	9.93	10.00	11.55
8	Coupons	15 years	9.69	9.76	11.48
9	(11%-)	20 years	9.61	9.68	11.45
10	Irredeemables		9.67	9.74	10.98
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.81	3.83	4.04
12	Inflation rate 5%	Over 5 yrs.	4.22	4.23	4.35
13	Inflation rate 10%	Up to 5 yrs.	3.19	3.20	2.80
14	Inflation rate 10%	Over 5 yrs.	4.04	4.05	4.17
15	Debs &	5 years	11.40	11.41	13.28
16	Loans	15 years	11.17	11.20	12.85
17		25 years	10.97	11.01	12.51

♣Opening index 2577.1; 9 am 2571.7; 10 am 2556.5; 11 am 2557.6; Noon 2554.5; 1 pm 2551.7; 2 pm 2555.9; 2.30 pm 2558.4; 3 pm 2556.2; 4.10 pm 2551.1; (a) 8.35am (b) 3.40pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, Ibex House, 42-47 Minories, London EC3N 1DY. Tel: 071-702 0991.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	72	0	10
Corporations, Dominion and Foreign Bonds	8	0	12
Industrials	304	261	928
Financial and Properties	169	87	504
Oils	24	14	52
Plantations	1	1	8
Mines	37	18	98
Others	80	26	45
Totals	695	407	1,657

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

x Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1990-91. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. O Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ◆ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings Oct. 21
- Last Dealings Nov. 1
- Last Declarations Jan. 23
- For settlement Feb. 3

For rate indications see end of London Share Service

Calls in ANZ Banking, ASDA, Berisford Intl., BTR warrants, Gold Greenlees Trott, Haemocell, Kunick, Lucas Inds., Tuskar Res. and WPP 8.25p Cnv. Pref. Puts in First Natl. Fin. Corp. Puts and calls in Mountleigh and WPP Ordinary shares.

LONDON TRADED OPTIONS

October 29 Total Contracts 20,172
Calls 11,582 Puts 8,590
FT-SE Index Calls 2,889 Puts 1,615
Euro FT-SE Calls 127 Puts 320
Eurotrack 100 Index Calls 0 Puts 0
*Underlying security price. † Long dated expiry mths
Premiums shown are based on middle prices.

Thames Television turns in £4.04m interim deficit

By Raymond Snoddy

THAMES TELEVISION yesterday completed the worst month in the company's history by announcing a pre-tax loss of £4.04m on a turnover of £178m.

The results for the six months to the end of June came nearly two weeks after Thames lost its franchise to Carlton Communications in the competitive tenders for new 10-year broadcasting licences.

Lord Brabourne, chairman of the largest ITV company, said the decline in operating profits from £22.3m to £4.77m had three main causes:

- the effect of the recession on advertising revenue which fell 8.3 per cent. Network revenue fell by 9.1 per cent although the Thames share increased marginally;
- the high cost of dramas such as Shrinks and Selling Hitler;
- an operating loss of £4m in the US, in particular Reeves Entertainment the Thames production subsidiary in the US.

Those factors, Lord Brabourne said, exacerbated by the cost of ITV coverage of the Gulf war, "combined to produce the most difficult trading conditions for many years and a most disappointing result."

The pre-tax loss of £4.04m, not including costs of £2.11m arising from the franchise application and staff redundancy costs, compared with pre-tax profits of £10.3m last time.

Losses per share, after an exceptional £680,000 involving reorganising costs at ITN, were 8.62p compared with earnings of 13.31p last time. A dividend of 2.5p (5.15p) is declared.

Mr Richard Dunn, chief executive, emphasised that in spite of the disappointment of losing its franchise Thames was determined to provide "the most attractive programme service" until the end of 1992 and to maximise shareholder value by being the largest independent production house in the UK.

The radical restructuring of the company's cost base has already begun. At the end of June Thames had 1,412 permanent staff compared with 1,855 a year earlier. Seventy-five redundancies have already been announced at Cosgrove Hall Productions, the Thames animation subsidiary, and a further 200 in regional current affairs will get redundancy notices at the beginning of next month.

The costs of the 1,000 redundancies expected by the end of 1992 would be taken as an extraordinary item in the accounts for the full year.

Mr Neil Blackley, media analyst at James Capel, said it was difficult to predict future profits of Thames after the loss of the franchise. They would be volatile and would depend on how successful the company was in selling its programmes to the highest bidder.

The share price, he believed, could drift below 180p.

Thames said that although trading conditions in the third quarter remained difficult there were indications of an improvement in the fourth quarter producing some real growth in airtime revenue.

"This, together with the benefits of the cost reduction programme and strong UK network programme sales, will enable the company to report a substantial operating profit for the second half-year," Lord Brabourne said. Thames shares ended the day down 4p at 187p.

Television South West has warned of "early and substantial reductions" in staff numbers following its loss of franchise to West Country Television.

Sir Brian Bailey, the TSW chairman, said the company was still taking legal advice about the possibility of seeking a judicial review of the decision by the Independent Television Commission.

TSW has changed its year end and intends to report on the 17 months to the end of December.

To allow comparisons to be made TSW issued a second interim statement yesterday covering the 12 months to the end of July.

Profit before tax was £146,000 compared with £4.7m in 1990. The profit before levy and exceptional items was £3.2m.

Banks to consider refinancing at Vestey

By David Churchill

BANKERS to Union International, the main trading arm of the privately-owned Vestey Group, are considering proposals from the company for a restructuring of its £423m short-term debts.

A meeting of up to 100 of Union's bankers, including Lloyds Bank, broke up last night after hearing the company's plea for more time to sort out its financial problems. Further talks are expected over the next few days after the banks have considered the proposals.

Mr Tim Vestey, general manager of the Vestey Group, said he was "optimistic" about the success of the talks. "We told them what our problems were and what we are doing about them and why we needed more time," he said. "I think they were responding favourably."

Union International, whose trading operations include more than 1,000 Dewhurst High Street butchers' shops as well as insurance, property and food interests in the UK and overseas, says that its financial problems originate at the holding company level rather than with its trading subsidiaries. These "are generally trading profitably and are able to meet their normal obligations."

In particular, the company said it had been affected by the downturn in the UK property market which had led to an anticipated write-down in its asset base of £65m this year.

Other problems cited by Union include continuing hyper-inflation in Brazil, which affected its beef operations in that country, the costs of its rationalisation programme, and its high level of short-term borrowings.

The Vestey Group is one of Britain's richest private companies, wholly-owned by the Vestey family trusts.

Union International is a subsidiary of the Western Investment Company, the investment arm of the Vestey Group. Frederick Leyland & Co, another Western subsidiary, is not affected by the refinancing talks.

Few last orders expected at closing time

Philip Rawstorne on Whyte & Mackay's bid for Invergordon

Branding time: Michael Lunn (left) and Chris Grieg

KEY institutional shareholders in Invergordon Distillers appeared last night to be lining up behind the Scotch whisky company's management against the £350m takeover bid from Whyte & Mackay, UK drinks subsidiary of American Brands, the US tobacco group.

Prudential Assurance, after a meeting with Mr Chris Greig, Invergordon's managing director yesterday, is understood to have pledged its 7.5 per cent stake in his support.

Mr Greig, who led Invergordon through a management buy-out from Hawker Siddeley in 1988 and back to the stock market last year, speaks for directors' interests of 5.5 per cent and has already been assured of backing from Norwich Union, which has a 6 per cent shareholding.

He can also count on the 14.7 per cent held by the investment arm of Robert Fleming, Invergordon's financial adviser. Both Fleming, and de Zoete & Bevan, another Invergordon adviser, were active in the market yesterday buying a total of more than 1.1m shares.

But as the hotly-contested 12-weeks' battle moves towards its close at 1pm today, the outcome is still finely balanced. Whyte & Mackay claimed to have acquired 39.2 per cent and have acceptances for a further 2.3 per cent.

Argument continued yesterday over the position of Invergordon's employee shareholders who have seen their stakes increase 80-times following the management buy-out and the return to the stock market last year.

After a day of conflicting claims, Invergordon admitted that some employees had sold shares but insisted that it could still count on nearly 3 per cent, against an original 4.5 per cent stake. Those who had sold were believed to be managers who had borrowed heavily to acquire shares at the time of the market flotation.

Invergordon's future as only one of four quoted independent Scotch whisky distillers rests now on the decisions of such institutions as Bank of Scotland, Scottish Amicable, and Legal & General, which each hold about 3 per cent.

Analysts suggested yesterday that the odds were swinging narrowly in Invergordon's favour. But opinion was divided on whether, if it won the battle, Invergordon could survive a longer, drawn-out war.

Ms Michelle Proud and Mr Graeme Eadie at County NatWest said Whyte & Mackay's victory would only be delayed a year. "Over the next 12 months the group can add 2 per cent to its holding, block any major corporate or expansion plans Invergordon may have, and prepare the ground with the necessary institutions to secure future victory."

But others suggested that though life might be uncomfortable with a large and hostile shareholder, it would not be impossible.

Whyte & Mackay, which produces Vladivar vodka as well as Whyte & Mackay, Claymore and Crawfords Scotch, launched its bid, at 225p a share in August. It attempted to increase the appeal of the offer to employee shareholders with an alternative loan note mitigating capital gains tax liabilities.

The offer was later raised to 275p. Invergordon's shares closed unchanged last night at 265p.

Mr Michael Lunn, Whyte's chairman and chief executive, has throughout stressed the commercial logic of a merger which would create the third largest operator in the Scotch whisky industry.

The merged company would have access to the financial resources of American Brands, a strong portfolio combining a range of brands from the upper end of the market to own-label, and more extensive distribution.

Invergordon, which supplies more than a quarter of the own-label Scotch sold by UK supermarkets, immediately rejected the bid as wholly inadequate. It has constantly and vigorously asserted since that Whyte needed Invergordon's grain whisky distillery and malt whisky stocks more than Invergordon needed the Whyte brands.

Many industry analysts were persuaded that Invergordon's business was not so heavily weighted in the commodity end of the market as Whyte had claimed, and that its prospects as an independent were good.

Invergordon boosted its defence with forecasts of a 41 per cent increase in pre-tax profits this year to £32m, and a further rise to at least £37m in 1992.

Despite Whyte's sceptical questioning of the forecasts, analysts in general agreed that the bid was too low, and persisted in that belief after the offer was raised to 275p a share earlier this month.

Mr Victor MacColl, of Henderson Crosthwaite, said Invergordon shareholders were being "short-changed". Mr Alan Gray of Charterhouse Tilney described Whyte's valuation of Invergordon as "ludicrously low".

Whyte retorted that Invergordon's share price was likely to fall substantially if the bid lapsed and, despite cries of "scaremongering", reiterated its doubts about Invergordon's future as an independent.

If Invergordon succeeds in retaining that independence today, it will certainly have to deliver its forecast profits to survive a renewed bid next year.

Freezing of Nadir's assets extended for further 28 days

By Raymond Hughes, Law Courts Correspondent

THE ADMINISTRATORS of Polly Peck International returned to the High Court yesterday, applying for continuation of orders freezing assets of Mr Asil Nadir, PPI chairman, and other defendants to the £1bn writ the administrators issued last week.

By agreement a worldwide freeze was continued for seven days against the Industrial Bank of Kibris, and for 28 days against Mr Nadir, his mother, and a Cypriot lawyer.

Today the court will hear opposition by The Central Bank of The Turkish Republic of Northern Cyprus to any continuation of the freeze on £39m of its £51m British assets.

Mr Bernard Eder QC, for the bank, told the court yesterday that, in addition to opposing the freeze order, which was causing "immense problems", it would argue it had immunity from English court proceedings as the Turkish Republic of Northern Cyprus was a sovereign state, even though not recognised by the British government.

IBC pushed into first-half loss by £4.6m interest charge

By Peggy Hollinger

INTEREST charges pushed International Business Communications, the conference organiser and financial publisher, into the red for the first half of 1991.

The group, which has undergone two debt restructurings in the past year, reported a pre-tax loss of £2.44m, compared with a profit of £2.75m last time.

However, Mr Peter Rigby, chief executive, said interest charges of £4.6m distorted the true picture of the performance.

Under a complex restructuring announced in August and due to begin in January, banks agreed to write off £36.5m of its £84m debt and granted a £2m overdraft level.

Some £27m was converted into a debenture repayable in 1996 and £18.5m was left as senior debt.

The banks hold 65 per cent of IBC.

Interest charges on the £36.5m debt were taken in the six months.

However, Mr Rigby said that, as agreed under the restructuring, the charges would not be paid.

"The numbers for the first six months are not reflective of the on-going position of the business, nor do they reflect the rationalisation done during the period," he said.

Mr Rigby said the group was on track to meet its target of operating profits totalling more than £42.8m over the next five years.

Since the year-end, IBC has sold four peripheral businesses as part of its strategy to concentrate on its core publishing and conference operations.

One more disposal is planned this year. Mr Rigby said IBC had broken even on the sales.

IBC made an operating profit of £2.2m (£7.8m) on turnover of £27.9m (£44.3m).

Tax payments rose sharply from £113,000 to £472,000, because of the Dutch operations – IBC had not been able to offset Dutch tax charges with UK losses.

The loss per share was 1.9p (earnings 6.5p).

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Bradford Prop ....int	2	Jan 6	1.7	-	3.7
IAWS Group § ....fin	1†♣	-	1	2	2‡
Ralston Invest ....int	0.725	Jan 3	0.725	-	2

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♣Irish currency. ‡For 10 months.

Enlarged IAWS hit by high cost of debt

By Peggy Hollinger

Higher debt repayments depressed profits at IAWS, the fertilisers and agri-products group, in the year to July 31.

At the pre-tax level profits worked through at I£5.7m, or £5.23m, compared with the I£5.4m returned for the preceding 10 months following a change of year-end.

A 59 per cent rise in turnover to I£379.5m was largely accounted for by an 11-months contribution from RH Hall, which was acquired in September 1990 and doubled the size of Dublin-based IAWS.

Interest charges more than doubled to I£7.7m (I£2.9m), including payments on convertible loan notes, due to the working capital requirements of the larger group.

Debt was I£32m at the year-end, compared with I£14m before the RH Hall purchase.

Basic earnings per share fell from 6.2p to 4.9p. The diluted figure amounted to 5.2p.

A final dividend of 1p is proposed, making a same-again 2p total.

UK COMPANY NEWS

Great Portland raises £100m via debenture issue

By Richard Gourlay

GREAT PORTLAND Estates, the conservatively financed property company, yesterday raised £100m of 30-year money through a secured new issue of debenture stock.

The UK's sixth largest property company paid a 1.35 per cent margin over the benchmark 9 per cent 2008 Treasury Stock, slightly more than the 1.10 per cent paid by Land Securities in September.

Mr Richard Peskin, Great Portland's chairman, said the group was taking advantage of low rates and the appetite of long-term investors.

The funds would allow the group to refinance £80m of debt maturing within two years and would give up to £200m of "firepower" for acquisitions of a corporate or strategic property nature, he said.

"Shortly after the interims in two weeks time you should see some action," Mr Peskin said.

Great Portland's investment portfolio is heavily concentrated in central London offices, a sector particularly hard hit by recession in the property market. It is, nevertheless, conservatively run and has one of the highest interest covers among UK property companies. It does not capitalise interest and in June it revalued downwards its £814m portfolio by 19.8 per cent.

Baring Brothers, which placed the debentures yesterday, said there was no mileage in waiting a few months to see whether gilt rates would fall further because the market was troubled by political factors.

Mr Peskin said it was important to raise money when the chance arose. With the constraints implicit in membership of the European Exchange Rate Mechanism and the political uncertainty surrounding elections next year, Great Portland might not see as good an opportunity for some time, he said.

Great Portland has been particularly hit by conditions north of Oxford Street where the Uniform Business Rate and recession have had a devastating effect on small businesses.

The group announced a 27 per cent fall in net asset values to 286p per share in the year to March 31.

The share price closed at 192p yesterday.

Basil Sellers: day-to-day control of office systems

Acorn runs up £420,000 loss

By Alan Cane

ACORN, the UK-based personal computer manufacturer in which Olivetti of Italy has a majority stake, achieved a slim operating profit during the first half of 1991 in spite of difficult trading conditions.

However, interest charges of £538,000 (£319,000), resulting from Acorn's build up in working capital in late 1990 and early 1991, left the USM-quoted group £420,000 in the red at the pre-tax level.

During the opening half of the previous year Acorn saw its taxable profits tumble from £2.06m to just £42,000.

The group's early success was based on its development of the BBC microcomputer for educational use, and UK schools remain one of its principal markets.

Mr Sam Wauchope, Acorn's managing director, said government spending on computers in education had fallen short of previous years "with all discretionary funding allocated to supporting the Gulf conflict".

Profitability had also been hit by a fall in spending on computers for the home market and moves by distributors and dealers to reduce stock.

Sales for the first six months of 1991 fell from £22.1m to £17.8m, generating operating profits of £118,000 (£361,000). Losses per share emerged at 0.6p (earnings 0.1p).

Mr Wauchope said that although 1991 remained a difficult year, sales over the summer period had exceeded previous years.

He added that there had been a good market reaction to new products, including the A5000 designed as a low-cost system suited to desk-top publishing and a special package designed for people with disabilities and learning difficulties.

Gestetner shares fall on profits warning

By Peggy Hollinger

SHARES in Gestetner tumbled 14 per cent to 143p yesterday as the photocopier, fax and camera distributor issued a profits warning and announced a management shake-up designed to restore the fortunes of its ailing office systems division.

Mr Barry Hartop, who has been managing director of office systems since 1989, has resigned and day-to-day control of the division will be assumed by Mr Basil Sellers, the chairman and chief executive of Gestetner.

Mr Greg Melgaard, deputy chairman, said he would not rule out further reorganisation of the office division. However, there were no immediate plans to replace Mr Hartop with anyone other than Mr Sellers.

He added that sales in the office division – which accounts for 80 per cent of total turnover – were more than 10 per cent down on estimates for the year.

Analysts sharply criticised senior management for not being aware of the full extent of Gestetner's troubles. "Their predictions have been appalling," said one analyst. "They certainly were not as aware of things as they should have been," said another.

The steady decline of Gestetner's office systems business forced analysts to downgrade forecasts for 1991 as many as four times, from £68m to last night's £25m.

Mr Melgaard also said that he and two other executives would resign from the board of AFP, one of Gestetner's leading shareholders with 24.2 per cent, to concentrate on the day-to-day operations of the UK group. Mr Sellers will remain on the AFP board as a non-executive director.

However, it is believed that pressure for the resignations came from the Japanese office equipment manufacturer, Ricoh, which bought 24.2 per cent of Gestetner from AFP last month for £122.3m.

Mr Melgaard said that Gestetner expected to take "quite a few exceptionals" this year. About 10 per cent of the 10,000-strong workforce would have been cut by the year-end.

The office systems division had been hard hit by the downturn in its UK and US markets – which accounted for 34 per cent of turnover.

Mr Sellers said yesterday that Hanimex, purchased for £73m in 1989, was trading in line with budget. The downturn in the photographic market had been blamed for a sharp fall in interim profits.

Grampian urges acceptance

By Andrew Bolger

GRAMPIAN HOLDINGS, the Scottish mini-conglomerate which is bidding £79m for Macarthy, yesterday urged shareholders in the retailer and drugs manufacturer to accept its increased offer by Friday's close.

Grampian's all-paper offer values Macarthy shares at 285p, compared with last night's close of 271p, unchanged on the day.

Mr Bill Hughes, chairman of Grampian, said Macarthy had failed to provide its shareholders with any up to date information about the company and to produce any convincing reason why they should not accept Grampian's offer.

Grampian said the document which Macarthy posted to its shareholders last week contained inaccurate and misleading suggestions about Grampian's profits and accounting policies, which were in accordance with UK standards.

Mr Ian Parsons, chief executive of Macarthy, said last night: "The key issue is the value of Grampian's paper. We've raised fundamental questions and these have not been answered."

The improved Grampian bid came after rival offers from Lloyds Chemists and UniChem were referred to the Monopolies and Mergers Commission, and therefore lapsed.

NEWS DIGEST

Harmony Leisure loss at £2.17m

A WORSE trading loss, higher interest charges and provisions against property sales have combined to lead Harmony Leisure Group into a loss of £2.17m in the year ended March 31 1991, compared with £1.02m.

The USM-quoted group, which runs restaurants and public houses, incurred an operating deficit of £451,000 (£100,000) from turnover of £9.63m (£9.39m). Losses per share were 8.07p (3.07p).

The exceptional charge rose from £604,000 to £1.13m and included £975,000 for losses on the sale of four freehold and two leasehold properties.

The £2.5m released by the sales, together with lower interest rates, would lead to a significant cut in the interest charge this year, directors said. For the half year the charge was £595,000 (£314,000).

London listing for American Barrick

American Barrick Resources Corporation, the US gold mining company, has obtained a listing for its shares on the London Stock Exchange.

The company, which entered the gold mining business in 1983, has interests in five producing gold mines in North America.

American Barrick, which is currently listed on the New York, Toronto, Montreal and Swiss stock exchanges as well as the Paris Bourse, said the London listing would further enhance its accessibility to UK investors.

Ralston Trust net asset value ahead

At September 30 1991 net asset value of Ralston Investment Trust stood at 64.9p.

That compared with 63.29p at March 31 and with 62.4p the year before.

In the six months gross revenue totalled £447,000 (£487,000) and net earnings worked through at 1.02p (1.03p) per share. The interim dividend is again 0.725p.

Coats Viyella sells Tootal divisions

In a further refocusing of its UK business, Coats Viyella has sold two divisions of Tootal Clothing to the management for £3.3m.

The book value of the divisions, Tootal Apparel and Tootal Fashions, was £3.4m. The sales would further reduce gearing and allow management to concentrate on core businesses.

Bradford Property higher at £11.2m

Bradford Property Trust reported interim pre-tax profits up 7 per cent from £10.5m to £11.2m. The result was achieved on higher rental income of £6.72m, against £6.04m, and property sales slightly lower at £8.47m, against £8.96m.

The rise in the six months to October 5 was helped by other income of £426,000 (£238,000).

After tax of £3.71m (£3.65m) earnings per share were 5.19p (4.66p). The interim dividend is raised from 1.7p to 2p.

Radamec returns to profit but debts rise

In spite of increasing its bad debt provision by £100,000, Radamec Group returned to profit in the first half of 1991 with £56,000 pre-tax.

The group, engaged in electronic and mechanical engineering, said a recent single corporate failure led to the higher provision, and almost outweighed a £142,000 reduction in interest costs.

Profits stemmed from turnover of £5.65m and compared with a deficit of £78,000 on sales of £6.1m. The loss for the whole of 1990 was £396,000. Earnings per share came to 0.3p (losses 0.4p).

Lack of property sales hits Seafield

The absence of property trading profits in the first half of 1991 left Seafield with a small loss of £181,000, against a profit of £8.18m.

Mr Brian Chilver, chairman, said that because of the depressed market it was decided not to pursue disposals, although it was still intended to reduce borrowings as soon as possible.

The group was also hit by near-doubled interest costs of £1.2m, brought about by writing off all development interest, other than at the Finchley Road, north London, development, as opposed to capitalising it previously.

For the half year, transport and warehousing improved operating profit from £730,000 to £791,000 as turnover, profitability and margins increased.

Operating profit in property fell to £373,000 (£8.1m). Gross rental income rose 35 per cent as the benefit of new reviews and the letting of recent developments began to appear, but total turnover was a reduced £10.9m (£18.9m).

The loss per share amounted to 0.3p (7.9p earnings).

TR Far East asset growth

Over the six months ended August 31 1991, TR Far East Income Trust, which is principally invested in smaller Asian economies, saw its net asset value rise from 84.6p to 96.5p.

A year earlier it stood at 85p.

Because of lower profits in the trading subsidiary, which had been exceptionally active in the previous year, total revenue in the year ended August 31 declined 24 per cent, from £5.13m to £3.9m.

Earnings per share fell 25 per cent to 4.7p (6.3p) but a fourth interim dividend of 1.1p lifts the total to 4.2p (4p).

For the current year the directors are forecasting a dividend of at least 4.4p.

Revenue fall at Ldn & Strathclyde

London & Strathclyde Trust reported a fall in revenues and net asset value over the year ended August 31.

Net revenue fell from £1.05m to £839,000, earnings per ordinary stock unit were down from 7.2p to 5.7p, and net asset value was 246.3p (246.5p).

A final dividend of 4.25p is proposed, making an increased total of 5.75p (5.45p).

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 30.10.91: Pool purchase price (£/MWh)	Final Prices for Trading on 28.10.91: Pool purchase price (£/MWh)	Pool selling price (£/MWh)
0030	15.90	15.86	15.86
0100	16.04	15.85	15.86
0130	16.86	15.87	15.87
0200	16.83	15.85	15.85
0230	15.92	15.87	15.87
0300	15.92	15.85	15.86
0330	15.35	15.85	15.85
0400	15.87	15.85	15.86
0430	15.86	15.85	15.85
0500	15.86	15.85	15.85
0530	15.86	15.85	15.86
0600	15.85	15.86	15.86
0630	15.90	16.03	16.00
0700	16.31	17.39	21.69
0730	18.15	19.81	25.85
0800	16.22	39.25	30.04
0830	19.41	47.68	50.00
0900	19.43	68.74	85.61
0930	19.45	71.54	81.78
1000	19.46	72.05	92.35
1030	19.45	67.33	86.82
1100	19.45	84.17	82.37
1130	19.45	64.46	82.78
1200	19.46	68.63	84.05
1230	19.45	68.84	74.76
1300	25.43	47.79	60.73
1330	24.29	39.43	40.45
1400	18.23	28.43	33.63
1430	16.31	22.62	22.92
1500	16.30	22.51	22.51
1530	15.92	22.67	22.57
1600	18.35	33.35	32.38
1630	22.46	62.61	62.61
1700	22.44	55.78	70.45
1730	21.46	61.30	66.64
1800	22.55	63.26	60.84
1830	26.62	52.57	59.57
1900	20.47	39.85	48.19
1930	22.66	42.60	55.79
2000	21.51	43.12	54.84
2030	20.81	37.16	46.47
2100	19.11	24.64	31.21
2130	18.58	20.87	26.23
2200	18.21	18.67	23.58
2230	18.21	17.79	22.32
2300	16.21	17.36	21.83
2330	15.88	16.26	16.26
2400	15.87	15.92	15.92

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £40.00/MWh becomes 4.00p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final prices are also dependent upon revision.

NGC Settlements Limited

COMMODITIES AND AGRICULTURE

Soviet nickel smelter 'will cost $640m to clean up'

By Enrique Tessieri in Helsinki

CLEANING UP just one of the Norilsk nickel smelters on the Soviet Union's Kola Peninsula will cost $640m and take three years, according to Outokumpu, the Finnish state-owned base metals group.

The Petshenganikel smelter in the Russian town of Nikel is the biggest sulphur polluter of the peninsula, emitting 284,000 tonnes of sulphur annually. Severonikel of Monshegorsk emits 210,000 tonnes of sulphur annually, while a further 70,000 tonnes is emitted from other sources in the peninsula.

Outokumpu has submitted a tender to the Norilsk Nikel Group for the renovation of the Petshenganikel's nickel smelter.

The Finnish company believes renovation would reduce annual sulphur emissions to 15,800 tonnes.

Both Norway and Finland have expressed concern over the large amounts of sulphur being emitted from the Kola Peninsula's nickel plants.

These plants have devastated large areas of the peninsula and are causing damage to forests in Finland and Norway.

Mr Pertti Voutilainen, president, said that if the commercial tender is accepted next year by the Russians, plans to reduce sulphur emissions, as stipulated in recent Finnish-Soviet accords, would be on schedule.

Helsinki and Moscow signed agreements in October 1989 to reduce sulphur emissions in the Kola Peninsula by 50 per cent by 1995.

Mr Pekka Hynynen, an Outokumpu director, believes that the company's part in the smelter renovation work at Petshenganikel would be largely carried out by sub-contractors.

He expects that Finland would take up between 40 and 60 per cent of the financing costs of the project, with Norway (25 per cent), Sweden (10 per cent), Germany and other countries also playing a role.

Financing will be provided by the respective export finance and guarantee boards of Finland, Norway and Sweden. The Nordic Investment Bank will also be involved in the project.

There is also a possibility that the Russians could pay for the smelter on a buy-back basis and with products like cathode nickel and copper as well as high-grade nickel matte.

"We can either accept payment in cash or in raw materials," said Mr Hynynen.

"The payback period (for the smelter renovation work) should not be more than 10 years."

Bacteria give gold miners germ of an idea

Kenneth Gooding reports on a novel method of extracting gold from refractory rock

There's an orgy going on in there," says Peter Philip, president of Nevada-based Newmont Mining, with evident satisfaction. He is describing the breeding habits of Thiobacillus ferro-oxidans, a genuine gold bug that has been nibbling away at the fringes of the gold mining industry for some years but now seems ready to make a substantial impact.

T. ferro-oxidans is a naturally occuring bacteria. In the right circumstances, it will munch away at difficult (or refractory, in mining jargon) rock and help to liberate gold which would otherwise remain locked up for another few thousand years.

The bacteria break down the sulphides and enable the extraction of gold which would otherwise not be released by conventional leaching with a cyanide mixture, turning waste into ore.

Newmont has successfully used bacteria from the Nevada desert, first in the company's laboratories in Salt Lake City and more recently on 600-tonne heaps at its gold mining operations on Nevada's Carlin Trend.

Now Newmont plans one more trial to make sure that its method for bioleaching gold is commercially viable. It will put T. ferro-oxidans to work on a 20,000-tonne heap next year.

If this experiment proves successful it will immediately add 1.4m troy ounces of gold to Newmont's reserves at little extra cost.

Philip also believes that similar material that has yet to be mined might contain as much as 5m extra ounces of gold. Even at today's low gold price, that would be worth $1.75bn.

"The process might open up the whole Carlin area and make it mineable", he says. Newmont already has 17 gold deposits containing about 600m ounces of gold in four mining areas on the Carlin Trend, the biggest known gold area outside South Africa. The Trend runs for 38 miles (61km) along a spur off the Tuscalora mountain range in Eureka and Elko counties. It is now clear that almost every hillside contains gold.

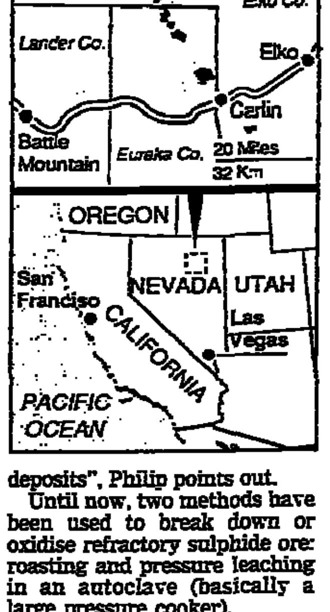
Newmont produces more than 1.5m ounces of gold a year, so must add at least that amount to its reserves if these are not to start falling away – a phenomenon which tends to worry shareholders.

Another mining company, American Barrick, whose Goldstrike mine on the Carlin is surrounded by Newmont's land, also has a great deal of material which could benefit from bioleaching. Indeed, Barrick already has a store of the material and will supply the 20,000 tonnes to be used in Newmont's test heap.

Newmont's method of bioleaching would also work in other parts of the world and should be in demand as more and more ore is of the difficult, sulphidic type as gold mines dig deeper into ores that have not been naturally oxidised.

Bioleaching would "help turn some marginal gold deposits into mineable deposits", Philip points out.

Newmont gold mines on Carlin Trend



Until now, two methods have been used to break down or oxidise refractory sulphide ore: roasting and pressure leaching in an autoclave (basically a large pressure cooker).

Both are expensive, and roasting has the added drawback of emitting liberated sulphur which must be captured if it is not to contribute to acid rain. Newmont will use roasters for some of its ores, while American Barrick is using autoclaves.

Philip says the cost of bioleaching Newmont's material will be about $3.50 a tonne, compared with $1 for simple heap leaching (where ore is simply piled on a plastic pad and a weak cyanide mixture sprinkled over it) and $11 when put through a roaster.

Because bacteria were among the first forms of life, they have been able to adapt to a variety of diets and environments. Different types live with and without air, at temperatures ranging from freezing to boiling, and can eat such surprising substances as oil and rock.

T. ferro-oxidans enjoys iron sulphide, but needs air and a reasonable temperature (about 30 degrees). Too much cold makes the bacteria go dormant and too high a temperature – more than 50 degrees - kills them off, says Philip.

Newmont has applied for patents on its bioleaching process so that it can license other miners to use it. However, much of the material at Carlin contains active carbon, and Newmont has yet to find an economical way of bioleaching this.

Although other companies have tried bio-oxidation and bioleaching, few have succeeded. However, Gencor (General Mining Union Corporation) of South Africa has been using a different type of bacterial oxidation at its Fairview gold mine in the eastern Transvaal and has plans for two more plants, in Australia and Brazil.

Gencor's process aims to deal with Fairview's difficult arsenopyrite deposit. If the ore was leached in the normal way, arsenic would come out with the gold. Gencor turns its ore into a powdered concentrate and puts the bacteria to work in tanks in which the concentrate is mixed with water.

Peter van Aswegen, Gencor's consulting metallurgist, says Fairview processes 35 tonnes of concentrates a day. Such is the company's confidence in T. ferro-oxidans that it has dismantled the ageing roasters previously used at the mine.

In December, a 40-tonnes a day plant will be started at the Harbour Lights mine in Australia, and Gencor will also use its bio-oxidation process at its joint-venture Sao Bento gold mine in Brazil. "We are also looking to sell the process in North America," says van Aswegen.

He says the plant can be operated by unskilled personnel. "No sophisticated, computer-controlled equipment is required, it is all done manually." It is also cost-effective.

Newmont's process is more simple in that rock is simply piled up in a heap and the bacteria put to work. "It all happens quickly and economically," says Mr Philip. "The process accelerates what nature has done over millions of years to the near-surface ores on the Carlin Trend."

Newmont will build its 20,000 tonne heap next February or March. The test will take between six and nine months, so Philip will have to wait until the end of 1992 to see the results. He is reasonably confident. "We have gone from test tube to 20,000 tonnes and overcome a lot of obstacles on the way. We know it will work but we don't know how fast it will work in a big heap."

Western Mining to postpone expansion at Kambalda site

By Kevin Brown in Sydney

WESTERN Mining Corporation (WMC), the Australian resources group, yesterday said it would postpone a A$300m (US$238m) expansion of its Kambalda nickel operations in Western Australia because of delays in achieving continuous working.

The Western Australian Industrial Relations Commission, the state labour tribunal, gave permission earlier this year for a switch to seven-day operations from the present five-day working with an option for a sixth day.

However, WMC said the Western Australian government had not implemented changes to the state's Mines Regulation Act which are needed to allow the move to continuous working to take effect.

WMC said it would not proceed with the modernisation of operations at Kambalda until the government amends the mining act. In the meantime, the group will reduce mining in high cost areas in an attempt to cut unit costs.

Production at Kambalda was hit last month when 450 workers at the Foster Mine went on strike for two weeks in a dispute over rates of pay for piece work. There was a further one day strike late last month.

WMC said it treated 313,000 tonnes of ore at Kambalda in the three months to the end of September, compared to 356,000 tonnes in the comparable quarter of last year.

The modernisation plan is intended to help WMC increase total nickel output from around 53,000 tonnes to 65,000 tonnes over two years.

The group is the third largest nickel producer outside the former eastern bloc countries.

● The nickel market is becoming concerned about slipping stainless steel demand in Japan, says Mr Nick Moore, analyst with Ord Minnett. Some 62 per cent of nickel is consumed by stainless steel production and Japan is the biggest stainless producer.

● Energy Resources of Australia (ERA), a subsidiary of North Borken Hill Peko, said it plans to reduce production at its Ranger uranium mine in Australia's Northern Territory because of low prices.

ERA said it was evaluating a range of options to reduce costs as part of a rationalisation of operations at Ranger. It said some redundancies would be "inevitable".

The group recently purchased the nearby Jabiluka uranium deposit from Pancontinental Mining for A$125m, but is unable to proceed with plans to develop the two mines jointly because of Australian government restrictions.

Scottish fishermen angry at EC ruling

By James Buxton, Scottish Correspondent

SCOTTISH fishermen reacted with dismay to Monday's decision of EC fisheries ministers to increase the mesh size of nets used for catching cod and haddock.

Under an agreement reached in Luxembourg and aimed at reducing over-fishing in the North Sea, the diamond-shaped mesh size of fishing nets will increase next year from 90mm to 100mm.

In addition fishermen may, if they wish, install square mesh panels with a size of 90mm which are designed to allow fish to escape. In the Irish Sea, mesh sizes will rise from 70mm to 80mm. Drift nets of more than 2.5km in length will be outlawed from June 1 1992.

Mr Manuel Marin, the EC fisheries commissioner, had argued that a mesh size of 120mm was essential to conserve stocks.

But Mr Bob Allan, chief of executive of the Scottish fishermen's federation, said the deal was "absolutely deplorable in terms of conservation. There are no conservation or scientific criteria to underpin it."

It was pointless to make the use of square mesh panels optional, he said.

However, Mr David Curry, the UK fisheries minister, said that the deal, reached late on Monday, was "the only practical option around in town." He described the situation in the North Sea as very serious. "We had to nail the conservation package down otherwise it would have drifted out of sight completely," he said.

British fishermen continue to press for a government funded scheme to decommission surplus fishing boats.

Mr Curry reiterated that he did not believe decommissioning was the answer to the problem. It tended to get rid of old boats, leaving others to multiply their effort in the fishing grounds, he said.

Indian sugar growers facing losses

By Kunal Bose in Calcutta

INDIA'S sugar growers, who produced a record 12m tonnes of white sugar in the 1990-91 season, started the new season this month facing further losses.

The industry is realising about Rs700 ($27) a quintal compared with production costs of Rs825. The consequent losses will impair the industry's ability to clear cane bills in time, according to Mr Om Dhanuka, spokesman for Indian Sugar Mills Association.

He fears that cane arrears could reach Rs8bn during the mid-season. The industry, according to Mr Dhanuka, fears that such arrears will lead to diversion of acreage to competing crops such as rice and wheat in Uttar Pradesh and Bihar states, oilseed and groundnut in Maharashtra, and maize – particularly in the second plantation period, from February to April.

The government, which controls distribution, has stepped up releases of sugar to the market as an anti-inflationary measure.

Such diversion could be disastrous, said Mr Dhanuka, who pointed out that the industry now is required to provide 10.5m tonnes of sugar for the domestic market.

The industry is unlikely to meet the sugar production target of 12.5m tonnes this season. Mr Dhanuka estimates sugar production for 1991-92 will again be 12m tonnes.

Highland Valley seeks end to dispute at copper mine

British Columbia's Industrial Relations Council is to hold a hearing today to determine whether to grant Highland Valley Copper an order to end production slowdowns by disgruntled workers at its giant copper mine, Reuter reports from Vancouver.

Overall mine output has been cut by between 25 and 30 per cent as a result of slowdowns by mineworkers angry at lack of progress in labour contract talks.

Talks on a new contract with representatives of the mine's 1,150 workers broke down late last week. Mr Rod Killough of Highland Valley said the greatest production losses at the open-pit complex were in waste-stripping, which was down about 40 per cent to between 35,000 and 40,000 tonnes from 60,000 to 65,000 tonnes per shift.

The amount of ore milled has been down by about 9 per cent to around 122,000 tonnes from 133,000 tonnes daily. But the ore is of slightly higher grade, so Highland Valley still has been producing its usual 1m lbs of copper daily. "We're going to produce close to what we've forecast because the grade is higher than what we forecast," he said.

But Mr Killough said that, if the labour dispute were to drag on into November, the lack of proper waste-stripping could have a serious impact on next month's copper output.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,640-1,680 (1,640-1,670).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.80-3.20 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 1.80-2.40 (1.80-2.35).

COBALT: European free market, 99.5 per cent, $ a lb, in warehouse, 17.50-18.50 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 70-90 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.18-2.24 (2.19-2.25).

SELENIUM: European free market, min 99.5 per cent, $ a lb, in warehouse, 4.80-5.40 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 59-67 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.30-2.45 (2.35-2.45).

URANIUM: Nuexco exchange/ value, $ per lb, U_3O_8, 8.75 (same).

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+6,800	to 761,725
Copper	−375	to 298,675
Lead	+375	to 109,025
Nickel	+120	to 7,690
Zinc	−150	to 149,850
Tin	−140	to 13,235

WORLD COMMODITIES PRICES

MARKET REPORT

Gold closed steady on the London bullion market after rebounding from an afternoon low of $356.20 a troy ounce as the dollar fell on the currency markets. On Comex December gold slipped below $360 in early trading, but then recovered ground as the dollar dropped sharply after a survey showed that US consumer confidence fell to 60.4 per cent in October from 72.9 per cent in September. There was no apparent reaction on Comex to news that the Brazilian central bank had temporarily halted transactions in gold in order to preserve international reserves. On the LME aluminium prices closed slightly down after a day of volatile trading on speculation that Spain's Inespal was about to lop nearly 80,000 tonnes off its annual output. Short covering took the three-month price up to $1,195 a tonne. But within a short time the company said a 22 per cent cut was only one option it was considering and that, in any case, no decision would be made before January. This prompted a wave of selling and liquidation which took the price back down to $1,175 a tonne at one stage before good support emerged below $1,180. Nickel staged a sudden rally in the afternoon on merchant buying and ended firmer.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$18.40-8.50z	+0.05
Brent Blend (dated)	$21.75-1.85	-.125
Brent Blend (Dec)	$21.70-1.75	-0.05
W.T.I. (1 pm est)	$23.15-3.20z	+.025
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$234-240	
Gas Oil	$215-216	+0.5
Heavy Fuel Oil	$86-86	
Naphtha	$213-217	-1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$358.4	-0.45
Silver (per troy oz)♣	410c	+2.5
Platinum (per troy oz)	$358.25	-0.60
Palladium (per troy oz)	$85.25	
Copper (US Producer)	111c	+0.5
Lead (US Producer)	37.8c	
Tin (Kuala Lumpur market)	14.84r	
Tin (New York)	257.0c	+0.5
Zinc (US Prime Western)	62c	
Cattle (live weight)†	102.36p	-0.90*
Sheep (dead weight)†	111.25p	-0.17*
Pigs (live weight)†	73.84p	+0.51*
London daily sugar (raw)	$231.7j	+1.8
London daily sugar (white)	$267.0j	+2.0
Tate and Lyle export price	£245.0	+1.5
Barley (English feed)	£117	
Maize (US No. 3 yellow)	£141	
Wheat (US Dark Northern)	£101	
Rubber (Dec)♥	53.25p	-0.25
Rubber (Jan)♥	53.00p	-0.25
Rubber (KL RSS No 1 Nov)	226.0m	-0.5
Coconut oil (Philippines)§	$585y	-10
Palm Oil (Malaysian)§	$355u	
Copra (Philippines)§	$362.5x	
Soyabeans (US)	£152	+2
Cotton "A" index	66.70c	-0.55
Wooltops (64s Super)	392p	-20

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Nov/Jan t-Sep/Dec u-Nov x-Nov/Dec y-Dec/Jan z-Dec j-Oct/Nov. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Dec	200.00	196.80	196.00 190.00
Mar	195.20	194.80	196.00 193.60
May	194.40	194.80	193.80 192.20
White	**Close**	**Previous**	**High/Low**
Dec	266.0	266.0	268.0 264.6
Mar	283.5	283.5	283.0 281.5
May	283.0	282.7	281.9 281.1
Aug	283.8	283.9	282.9 282.3
Oct	260.0		259.2 256.4
Dec	259.0		259.5
Mar	261.0		260.5

Turnover: Raw 665 (129) lots of 50 tonnes. White 969 (149)
Paris- White (FFr per tonne): Dec 1650.49, Mar 1645.37

CRUDE OIL – IPE ($/barrel)

	Close	Previous	High/Low
Dec	21.72	21.79	21.82 21.62
Jan	21.52	21.60	21.65 21.46
Feb	21.30	21.35	21.43 21.24
Mar	21.00	21.00	21.10 21.03
Apr	20.75	20.76	20.83
May	20.55		20.59
Jun	20.50		20.60 20.45
IPE Index	21.87	22.11	

Turnover 19056 (20472)

GAS OIL – IPE ($/tonne)

	Close	Previous	High/Low
Nov	215.25	214.25	215.50 212.50
Dec	216.75	215.50	217.00 213.75
Jan	214.25	213.25	214.50 211.75
Feb	206.50	205.50	207.00 204.00
Mar	198.75	197.50	199.00 196.50
Apr	191.50		192.50 189.00
May	185.00	184.00	187.00 184.00
Jun	180.25	180.00	180.25 180.00

Turnover 13227 (13357) lots of 100 tonnes

JUTE
November/December c and f Dundee BTC $405, BWC $415, BTD $370, BWD $380; c and f Antwerp BTC $380, BWC $375, BTD $365, BWD $350.

COTTON
Liverpool- Spot and shipment sales for the week ending October 25 amounted to 181 tonnes against 408 tonnes in the previous week.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Dec	726	748	749 725
Mar	768	788	787 764
May	794	812	811 790
Jul	819	836	833 815
Sep	843	859	858 840
Dec	869	885	880 868
Mar	890	910	901 900
May	906	925	910 906
Jul	922	939	920 920
Sep	939	955	948

Turnover: 7807 (6208) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct. 28 934.82 (933.67) 10 day average for Oct. 29 940.04 (942.77)

COFFEE – London FOX (£/tonne)

	Close	Previous	High/Low
Nov	525	529	531 520
Jan	546	550	553 543
Mar	557	556	562 553

Turnover: 3734 (1853) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Oct. 28: Comp. daily 63.47 (63.70) 15 day average 63.26 (63.09)

POTATOES – London FOX (£/tonne)

	Close	Previous	High/Low
Nov	87.0		87.0
Apr	128.4	127.9	127.0 126.1

Turnover 177 (130) lots of 20 tonnes.

SOYAMEAL – London FOX (£/tonne)

	Close	Previous	High/Low
Dec	132.00	131.50	133.50 132.00
Feb	136.50		136.50
Jun	130.50	129.50	130.50
Aug	129.50		129.50

Turnover 123 (75) lots of 20 tonnes.

FREIGHT – London FOX ($10/index point)

	Close	Previous	High/Low
Nov	1689	1695	1699
Dec	1679		1680 1678
Jan	1710	1715	1714 1710
Apr	1710	1720	1710 1705
BFI	1651	1650	1651

Turnover 322 (47)

GRAINS – London FOX (£/tonne)

Wheat	Close	Previous	High/Low
Nov	118.15	118.45	118.30 118.20
Jan	121.80	122.15	122.05 121.85
Mar	124.85	125.20	125.00 124.90
May	127.65	127.65	127.80 127.60
Barley	**Close**	**Previous**	**High/Low**
Nov	113.80	113.85	113.80
Jan	120.45	117.85	120.45

Turnover: Wheat 186 (145), Barley 6 (34). Turnover lots of 100 tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Nov	99.5		99.0
Jan	97.5		97.0

Turnover:35 (12) lots of 3,250 [illegible]

HGNI – London [illegible]

	Close	Prev.	High	Low	Vol
Indx	134.53	134.74			
Nov	134.50		134.50		10

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 22,207 lots	
Cash	1152-3	1157-8	1158/1152	1151-2		
3 months	1181-2	1186-7	1205/1174	1180.5-1.5	1180-1	130,297 lots
Copper, Grade A (£ per tonne)					Total daily turnover 25,080 lots	
Cash	1364-4.5	1386-7	1409/1364.5	1404-4.5		
3 months	1371-81	1371-2	1386.5/1368	1386.5-7	1366-9	109,752 lots
Lead (£ per tonne)					Total daily turnover 1,709 lots	
Cash	298.5-300	299-300		299-300		
3 months	311.25-1.5	311-1.5	313/311	311-1.5	311.5-2	12,186 lots
Nickel ($ per tonne)					Total daily turnover 3,137 lots	
Cash	7475-600	7395-405	7390	7385-90		
3 months	7500-05	7410-20	7500/7400	7405-10	7490-500	17,074 lots
Tin ($ per tonne)					Total daily turnover 1,074 lots	
Cash	5530-5	5520-30		5515-20		
3 months	5590-600	5580-5	5600/5580	5580-5	5595-8	5,315 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 5,039 lots	
Cash	994-5	997-8		995-5.5		
3 months	1013-4	1016-7	1017/1013	1014-4.5	1013-4	28,200 lots

LME Closing £/$ rate: SPOT: 1.7225 3 months: 1.7048 6 months: 1.6855 9 months: 1.6685

LONDON BULLION MARKET (Prices supplied by N.M.Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	358.20-358.60	
Opening	358.50-358.90	
Morning fix	358.60	211.029
Afternoon fix	357.40	208.397
Day's high	358.80-359.20	
Day's low	356.30-356.70	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.83	6 months	4.63
2 months	4.78	12 months	4.56
3 months	4.73		

Silver fix	p/fine oz	US cts equiv
Spot	238.45	405.25
3 months	244.65	410.60
6 months	250.75	416.20
12 months	262.75	427.45

GOLD COINS (Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	357.50-358.50	208.50-209.00
Maple leaf	367.50-368.50	214.25-214.75
New Sovereign	87.50-89.00	51.00-51.50

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Dec	Mar	Dec	Mar
1100	78	116	10	21
1200	21	57	52	60
1300	3	23	132	124
Copper (Grade A)	**Calls**		**Puts**	
2250	[illegible]	[illegible]	[illegible]	[illegible]
2350	[illegible]	[illegible]	[illegible]	[illegible]
2450	[illegible]	[illegible]	[illegible]	[illegible]
Coffee	**Jan**	**Mar**	**Jan**	**Mar**
500	[illegible]	[illegible]	[illegible]	[illegible]
550	[illegible]	[illegible]	[illegible]	[illegible]
600	[illegible]	[illegible]	[illegible]	[illegible]
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brent Crude	**Dec**	**Jan**	**Dec**	**Jan**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

COTTON 50,000; cents/lbs

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

INDICES

REUTERS (Base: September 18 1931 = 100)

Oct 29	Oct 28	mnth ago	yr ago
1658.3	1663.4	1621.7	1717.8

DOW JONES (Base: Dec. 31 1974 = 100)

	Oct 29	Oct 28	mnth ago	yr ago
Spot	113.66	115.37	117.86	125.50
Futures	120.49	120.98	124.12	127.60

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

LONDON STOCK EXCHANGE

Rally in equities runs out of support

By Terry Byland, UK Stock Market Editor

THE REVIVAL of confidence in the UK stock market ran out of support yesterday as the collapse of the £432m rights issue from British Aerospace unsettled institutional investors and the widely followed business survey from the Confederation of British Industry (CBI) proved somewhat cooler than anticipated.

In early trading, the stock market gained a further 20 points but the futures market turned bearish, and the reversal of the premium on the FT-SE December contract into a discount undermined the trend in underlying equities.

The market's move into negative territory was confirmed when Wall Street failed to extend the gain of 40 Dow points achieved overnight. London closed with a net loss of 5.2 on the FT-SE Index for a final reading of 2,553.3.

Traders said that there was little selling pressure and saw yesterday's setback as no more than a mild reaction to the strong rise of the previous session. Seaq-reported turnover was high, but this total was boosted by heavy activity in selected stocks, not least in British Aerospace where, following the collapse of the rights issue, 30m shares were placed by sub-underwriters substantially below both the rights issue and the current market price.

The day's Seaq total of 563.7m shares compared with 412.5m on Monday. Stock Exchange statistics disclosed that customer, or retail, business in equities was worth only £714.6m on Monday when the Footsie Index gained 43.8 points, its best daily gain since the end of August; customer business has remained short of the £1bn daily figure regarded as a healthy market.

Equities opened firmly, encouraged by Wall Street's overnight strength. The eagerly-awaited report from the Confederation of British Industries, detecting "flickering signs of an upturn from what is still a severe recession" was received without much excitement, and it was soon clear the the early gain in share prices lacked support.

Weakness in the market was reinforced by moderate losses in such leading names as ICI, with trading figures due this week, BAT Industries and in oil shares. Wall Street remained an uncertain factor for London and weakness in the US dollar also unsettled the UK dollar stocks at the close.

Equity strategists, who largely brushed off the rise in the market on the previous trading session, appeared unimpressed by the CBI survey and by the optimism which this inspired in political circles.

"The market is showing all the signs of slipping back towards the low Footsie 2,500s," said one dealer at a US house. Fund managers remained unwilling to move into equities, in part because many of them have already established strong portfolio gains since the beginning of the year and are now inclined to keep the cash safe in money market instruments.

At Hoare Govett, the UK securities house, Mr Richard Lake warned that the London market is enjoying "a technical rally." He also reminded investors that there has been a wide divergence in performance, even among Footsie stocks, where Grand Metropolitan, Glaxo and British Airways continue to outperform while British Steel, Barclays, British Gas and several other leading names have failed to keep up with the general trend.

Account Dealing Dates			
*First Dealings:	Oct 14	Oct 28	Nov 11
Option Declarations:	Oct 24	Nov 7	Nov 21
Last Dealings:	Oct 25	Nov 8	Nov 22
Account Day:	Nov 4	Nov 18	Dec 2

*New-time dealings may take place from 8.30 am two business days earlier.

FINANCIAL TIMES STOCK INDICES

	Oct 29	Oct 28	Oct 25	Oct 24	Oct 23	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	86.87	86.50	86.40	86.36	86.36	80.11	87.94 (18/9)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	98.84	98.40	98.33	98.21	98.30	88.92	97.17 (2/10)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share●	1954.0	1961.3	1929.3	1938.6	1966.1	1575.3	2108.3 (2/9)	1606.3 (15/1)	2108.3 (2/9/91)	49.4 (26/6/40)
Gold Mines	169.8	166.6	172.6	173.4	176.0	169.9	222.8 (11/7)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2553.3	2558.5	2514.7	2528.3	2561.1	2033.9	2679.6 (2/9)	2054.8 (16/1)	2679.6 (2/9/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1156.40	1153.60	1143.21	1148.36	1157.83	984.83	1196.60 (3/9)	938.62 (16/1)	1196.60 (3/9/91)	938.62 (16/1/91)
●Ord. Div. Yield	4.91	4.91	4.78	4.78	4.71	5.07				
●Earning Yld %(full)	7.61	7.59	7.57	7.57	7.48	12.65				
●P/E Ratio(Net)(*)	16.50	16.53	16.50	16.50	16.75	9.58				
SEAQ Bargns 4.45pm	25,373	24,883	28,992	25,909	22,365	18,868				
Equity Turnover(£m)†	-	714.55	1011.23	1065.59	744.07	671.83				
Equity Bargains†	-	22,390	26,659	25,880	18,924	16,585				
Shares Traded (ml)†	-	374.6	484.3	484.7	327.0	392.5				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, Basis 1000 FT-SE 100 31/12/83, [illegible] FT-SE Eurotrack 200 26/10/90. [illegible]

Ordinary Share Index, Hourly changes — Day's High 1974.4 — Day's Low 1950.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1974.1	1969.5	1958.8	1956.9	1955.5	1954.0	1956.3	1958.8	1952.6

FT-SE 100, Hourly changes — Day's High 2577.9 — Day's Low 2548.7

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2577.1	2571.7	2558.5	2557.6	2554.5	2551.7	2555.9	2556.2	2550.8

FT-SE Eurotrack 200, Hourly changes — Day's High 1159.38 — Day's Low 1155.38

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1159.37	1157.98	1157.99	1157.29	1157.20	1157.73	1157.41

GILT EDGED ACTIVITY

Indices	Oct 28	Oct 25
Gilt Edged Bargains	108.0	116.7
5-Day average	91.9	85.4

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001

Blow for BAe rights

THE PLACING late yesterday of a substantial part of the British Aerospace (BAe) rights shares at around 8 per cent below the issue price of 380p provided final confirmation that the £432m rights offer had been a resounding flop.

An early announcement that only 4.9 per cent of the issue had been taken up reinforced the market's worst fears. Kleinwort Benson, the lead underwriter, had posted a last-minute note to clients saying the "company has considerable medium-term potential" and had "a clear, coherent and credible strategy", but such arm-twisting was of no avail.

In mid-session, Hoare Govett, the company's broker, tried to match buyers and sellers for a small amount of the issue. Hoare found no takers for the stock at 368p, nor at 365p.

Some 12m shares were eventually placed at 357p, implying a heavy notional loss for the sub-underwriters involved. Dealers fear that the rest of the issue may overhang the market, driving the share price even lower.

The old shares closed 6 lower at 363p on 1.9m volume, while the new fully-paid were down 3 at 363p on 31m.

Food fears

The food retailing and manufacturing sectors were under pressure as fears that a price war had broken out undermined confidence.

Behind the decline was the news that H.J. Heinz had sharply cut the trade price of baked beans and a report that other leading food manufacturers might follow suit if sales do not pick up.

The supermarket chains took the brunt of the decline, with J. Sainsbury ending down 13 at 331p on turnover of 8.6m and Tesco losing 6 to 230p in extremely heavy trade of 25m.

Among the food manufacturers, Northern Foods weakened 13 to 534p, although speculation that it is about to buy Express Dairies from Grand Metropolitan was largely behind the decline.

Elsewhere, United Biscuits was 6 off at 380p, Tate & Lyle shed 5 to 384p and Associated British Foods slipped 5 to 460p. But Mr Carl Short of Nomura said any price war would be limited to those areas of greater competition, such as canned foods, bread and frozen foods. Where manufacturers have greater strength, such as in confectionery, price-cutting may not take place.

SmithKline up

The pharmaceutical sector was once again the brightest light in the stock market. Third quarter figures from SmithKline Beecham pushed the "A" shares sharply higher and inspired yet more vigorous buying of the SmithKline equity units.

Each equity unit is theoretically worth five "A" shares. A difference in price arises because the equity units are more tax efficient for some US funds. Yesterday, the "A" stock advanced 19 to 763p while the equity units climbed 120 to 3460p, a bigger percentage gain. The "A" shares are now at their cheapest against the equity units for more than a year. Turnover was high.

Glaxo continued to power ahead as modest UK and continental European selling was overwhelmed by apparently insatiable US investors. The stock climbed a further 27 to a new high of 787p. The gain since Friday, when the company received the go-ahead in the US for its migraine drug Imigran, is 85p, or 12 per cent. Wellcome was caught up in the euphoria of the drugs sector and firmed 8 to 755p.

BP under pressure

The fortunes of BP were under pressure yesterday after two securities houses took a bearish stance and turned an early 5 rise for the stock into a decline on the day of 2 at 335p. There was heavy turnover of 9.2m.

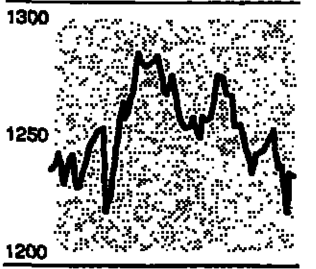
The oil company was a feature of Nomura Research Institute's morning meeting and the house was a seller of the shares. It also published a note, due to land on clients' desks this morning, which included a "substantial" cut in its forecast for BP's end of year profits.

This was compounded by a sell note from Strauss Turnbull. The broker argued that cashflow problems would eventually force the company to increase its debt levels if it hoped to maintain the dividend. Oil sector observers added that selling in the US also affected the BP share price.

Oil issues followed the market down as they reacted to worries that the price of Brent crude could continue to fall. Shell eased 2 to 514p, Lasmo was down 3 at 320p and Enterprise slipped 3 to 533p.

Optimism following a recent fund managers' visit to Standard Chartered's operations in the Far East continued to support the shares, which added 14 at 409p. They were also helped by news that Schroder Investment Management had bought a further 2.2m shares to increase its stake in the bank to 11.7m (5 per cent of the total equity).

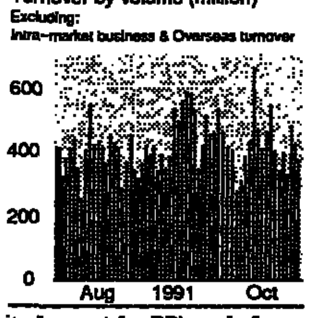
FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)

Excluding: Intra-market business & Overseas turnover



Standard was a bright spot in a dull sector as analysts continued to take their red pens to the banks. Agency broker Panmure Gordon cut its forecast for NatWest's end of year profits by £75m to £224m and the shares eased 4 to 325p.

Panmure was a cautious buyer of Royal Bank of Scotland (off 3 at 183p) but said trading conditions seemed to have deteriorated even further since the bank issued a profits warning in August. Mr Tim Clarke of Panmure added: "We had hoped the bad debt scenario had bottomed out, but it is beginning to look as though it may not bottom until the end of the first quarter."

Electronic organiser maker Psion jumped 12 to 63p as the company's latest product won an award at a US computer show.

Greycoat continued to recover sharply in the wake of its property deal with British Land on Friday. The former jumped 14 to 149p, although such has been its weakness recently that this is still below the price ruling a week ago. British Land rose to 300p before ending at 297p for a net improvement of 3.

Redland briefed analysts yesterday. After the meeting, BZW reiterated its buy recommendation on the stock. The broker said the dividend was the safest in the sector and its balance sheet was strong. The shares improved 9 to 515p. RMC added 7 at 575p in sympathy.

Early buying of ECC exposed a shortage of stock in the market and the shares were squeezed 11 better to 481p.

Scattered buying of BPB and Pilkington, said by traders to be in anticipation of results in a month's time, pushed the shares 9 ahead to 175p and 3 higher to 160p respectively.

Plant hire group Turriff dropped 7 to 18, its lowest for more than five years, in belated response to Monday's interim results. Profits fell from £1.65m to £44,000.

Building materials group BLP rose 11 to 53p as it was revealed that Mr Mark Hollingsworth Dixon has increased his stake to 8.56 per cent. The two-day rise is 22p.

Whyte & Mackay's bid for Invergordon Distillers looked as if it would be in the balance until the close of the offer at 1pm today. By 4.30pm yesterday, Whyte & Mackay had received acceptances for 41.5 per cent of Invergordon shares. The stock closed unchanged at 265p, compared with the offer price of 275p.

Marks and Spencer continued to fluctuate sharply ahead of interims due for release today. The shares declined 8 to 265p in modest turnover.

A warning that Gestetner's annual profits would be below market expectations depressed the share price, which tumbled 23 to 143p.

Trafalgar House firmed 4 to 237p. Smith New Court is a buyer, arguing that the stock is cheap compared to other high yielding shares.

Positive comment from securities house Credit Lyonnais Laing yesterday helped a number of water shares. Laing advised clients to buy Severn Trent, Southern and Welsh Water. The house's waters analyst Mr Robert Giles argued that negative sentiment over a potential general election victory by the opposition Labour party was already in the share price and the companies offered highly attractive yields. Severn Trent, also benefiting from relief following the disposal of its stake in Caird, improved 6 to 334p. Southern forged ahead 14 to 325p and Welsh rallied 6 to 359p.

Buying of Thames Water ahead of interim results expected tomorrow pushed the shares up 7 to 369p. The company has been trying to dampen expectations over the results but investors are attracted by the dividend.

MARKET REPORTERS:
Daniel Green, Peter John, Joel Kibazo, Jim McCallum.

■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 32.

NEW HIGHS AND LOWS FOR 1991

NEW HIGHS (73). BRITISH FUNDS (4) Tr. 2pc IL 1992, Tr. 2pc IL 1994, Tr. 2pc IL 1996, Tr. [illegible]. AMERICANS (4) Abbott Labs, Bankers NY, Hasbro, PHH, CANADIANS (1) Brascan, [illegible] ELECTRICALS (2) Northern Telecom, Radamec, ENGINEERING (1) Carclo, INDUSTRIALS (22) Alumasc, BH Prop., BSS, Baxter Intl., Beopak, Betterware Consumer Prods., Capita, Carbo, ECC, Glaxo, Granada 7.5p Prf., Gt. Southern, Haemocell, Hays, Le Creuset, Pacific Dunlop, Ricardo Intl., Ross, Sidlaw, Sinclair (Wm.), Sketchley, Wassall, INSURANCE (1) American General, LEISURE (2) Campari Intl., GWR, NEWSPAPERS (2) News Intl., Portsmouth & Sunderland, PAPERS (2) Ferguson Intl., Lawson Mardon, TEXTILES (2) Allied Textile, Claremont Garments, TRANSPORT (2) British Airways 9¾pc. Cnv., Tibbett & Britten, TRUSTS (7) Baillie Gifford Japan, Edinburgh Fund Managers, Murray Split Capital Inc., Do. Zero Div. Prf., Templeton Emrg. Mkts., Templeton Galbraith, World Tst. Fund, OILS (1) Woodside. MINES (4) De Beers Linked Units, Delta Gold, MIM, St. Barbara.

NEW LOWS (23). BREWERS (1) Macallan-Glenlivet, BUILDINGS (2) Conder, Turriff, ELECTRICALS (2) Feedback, Sunleigh, ENGINEERING (1) ASW, FOODS (1) Kemp (PE), INDUSTRIALS (8) Amber Indl., Barla, Bioplan, Elkem, Gestetner, Hanson Wrrnts., Shanks & McEwan, Tomkins (FH) 5.6pc. Prf., LEISURE (3) TVS Entertainment, Do. 7.4pc. Prf., Thames TV, NEWSPAPERS (2) Gardner (DC), Mirror, PROPERTY (1) Capital & Regional, TRUSTS (1) Jove Inv. Inc., OILS (1) Sceptre Res.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]				[illegible]				[illegible]				[illegible]			
British Land	68	297	+3	IMI	654	296	+4	Reuters	463	834	−12	Unilever	1,200	805	−6
BP	9,200	335	−2	ICI	654	1280	−6	Rolls Royce	5,200	136	−1½	United Biscuits	1,700	380	−6
British Steel	6,100	120	−½	Inchcape	342	386	−2	Rothmans	152	1138	−4	Utd. Newspapers	227	398	
British Telecom	4,600	386	+2	Kingfisher	761	547	−2	Ryl Bk Scotland	1,000	183	−3	Vodafone	2,200	380	+2
Bunzl	2,900	86	+2	Ladbroke	3,100	268	−2	Royal Insurance	4,200	289	−1	Wellcome	581	755	+8
Burmah Castrol	681	585	+2	Land Securities	380	503	−2	Saatchi	635	13		Welsh Water	362	359	+6
Burton	1,000	46	−½	Laporte	27	572	−5	Sainsbury	8,600	331	−13	Wessex Water	188	382	+8
Cable & Wire.	501	582	+1	Legal & General	897	361	−7	Scottish & New.	468	301	−4	Whitbread 'A'	811	457	−7
Cadburys	1,600	409	−1	Lloyds Abbey	402	385	−1	Scot. Hydro-Elect.	537	111		Williams Hldgs.	569	330	
Calor Group	915	240	+1	Lloyds Bank	1,100	389	−8	Scottish Power	2,800	107½	−½	Wills Corroon	64	294	+2
Carlton Comms	1,100	510	+5	LASMO	727	321	−2	Sears	8,600	101	+1	Wimpey	247	161	+3
Coats Viyella	787	189		London Elect.	228	255	−4	Sedgwick	1,700	230	+1	Yorkshire Elect.	646	284	−3
Comm. Union	741	464		Lonrho	1,700	248	+1	Seeboard	9	259	−2	Yorkshire Water	567	386	+1

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

EQUITY futures lost their bounce yesterday and dragged back the underlying stocks as they spent most of the day trading around their estimated fair value premium to the underlying index, writes Joel Kibazo.

The December Footsie future contract, which had pulled up the index sharply on Monday, opened strongly but then fell back and drifted lower for most of the day with dealers talking of a lack of follow-through buying. The low point in the day was seen towards the end of the session and December closed at 2,578, down 10 on the day but still around its estimated fair value premium of 26. Turnover reached 7,486 lots.

However, dealers pointed to a strong performance in interest rate and gilt futures markets.

Traded options saw another quiet session with volumes remaining well below the 30,000 the market needs to break even. Turnover was down slightly on the previous day, at 20,172 contracts.

Sears was the busiest option with some 2,451 lots traded. The December 90 puts were the busiest series.

This was followed by British Aerospace with a day's total of 2,215 lots transacted. It was followed by J. Sainsbury, with 1,242 contracts dealt.

LONDON SHARE SERVICE

BRITISH FUNDS

1991 High	1991 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
99¾	96¾	Treas. 8pc 1991	99¾	.....	8.03	10.39
101½	100½	Treas 12¾pc 1992‡‡	100½	.....	12.69	10.09
100¼	97¾	Treas 10pc 1992	99¾	.....	10.01	[illegible]
133¾	125¾	Treas 2pc IL 1992‡‡	133¾	+⅛	2.05	[illegible]
99⅛	95¾	Treas. 8pc 1992 ‡‡	99⅛	+⅛	8.07	[illegible]
100¾	98½	Treas 10½pc Cv 1992‡‡	100⅜xd	.....	10.47	[illegible]
96¾	91⅜	Treas. 3pc 1992	96¾	.....	3.10	[illegible]
102¼	100¾	Exch. 12¼pc '92	101¾	.....	12.04	[illegible]
104⅛	102¾	Exch 13½pc 1992	103⅛	+⅛	13.10	[illegible]
98⅛	94	Treas 8¼pc 1993	98¼	+⅛	8.40	[illegible]
100⅛	97⅜	Treas 10pc 1993‡‡	100⅜	+⅛	9.96	[illegible]
104¼	102¼	Treas 12½pc 1993‡‡	104¼	+⅛	12.00	[illegible]
95⅛	89¾	Funding 6pc 1993‡‡	95	.....	6.32	[illegible]
108⅛	105¾	Treas 13¾pc 1993‡‡	107¼xd	+⅛	12.82	[illegible]
97¾	92¾	Treas. 8½pc 1994	97¾	+⅛	8.71	[illegible]
111⅛	108⅜	Treas 14½pc 1994‡‡	109⅜	+⅛	13.23	[illegible]
109	105¾	Exch 13½pc 1994	108	+⅛	12.50	[illegible]
101⅛	96½	Treas. 10pc Ln. 1994‡‡	100⅛	+⅜	9.94	[illegible]
107⅝	103⅝	Exch 12½pc 1994	106⅛	+⅛	11.74	[illegible]
98⅛	93¼	Treas 9pc 1994‡‡	98¼xd	+⅛	9.17	[illegible]
106⅛	102⅛	Treas 12pc 1995	106⅛	+⅛	11.31	[illegible]
89	82¼	Exch 3pc Gas 90–95	88½xd	.....	3.39	[illegible]
102⅛	96¾	Exch. 10¼pc 1995	101⅜	+⅜	10.09	[illegible]
110¾	105¼	Treas 12¾pc 1995‡‡	109¾xd	+⅛	11.62	[illegible]
114⅛	109¾	Treas. 14pc '96	113⅛	+⅛	12.34	[illegible]
99⅛	92¾	Treas. 9pc 1992–96‡‡	98¾	+⅛	9.10	[illegible]
119¾	115¾	Treas 15¼pc 1996‡‡	118⅞xd	+⅛	12.83	[illegible]
112¾	108	Exch 13¼pc 1996‡‡	111¾xd	+⅛	11.84	[illegible]
		Five to Fifteen Years				
101¾	95¾	Conversion 10pc 1996	101⅛xd	+⅛	9.89	[illegible]
101¾	97⅛	Do. 10pc 1996 B	100¾xd	.....	10.11	[illegible]
114⅛	108¾	Treas 13¼pc 1997‡‡	113⅛	+⅛	11.70	[illegible]
103¾	97⅛	Exch 10½pc 1997	102¾	+⅛	10.20	[illegible]
96¾	89¾	Treas 8¾pc 1997‡‡	95⅞	+⅛	9.13	9.66
123¾	117	Exch 15pc 1997	121¾	+⅛	12.31	10.03
100¾	93¾	Exch. 9¾pc 1998	99¾	+⅛	9.77	9.74
88¾	80⅛	Treas 6¾pc 1995–98‡‡	88⅛xd	+⅛	7.67	9.19
128⅛	121¼	Treas. 15½pc '98‡‡	127⅛	+⅛	12.17	9.91
111¾	104¾	Exch. 12pc 1998	110¾xd	+⅛	10.84	9.85
100¾	92¾	Treas 9½pc 1999‡‡	99⅛	+⅛	9.56	9.59
113⅛	105¾	Exch. 12¼pc 1999	112¼	+⅛	10.91	9.86
104¾	97⅛	Treas. 10½pc 1999	103⅞xd	+⅛	10.11	9.75
103⅛	95¾	Conversion 10¼pc 1999	102⅞xd	+⅛	9.99	9.77
97¾	89⅛	Conversion 9pc 2000‡‡	96⅛	+⅛	9.31	9.58
118¾	110½	Treas. 13pc 2000	117⅜	+⅛	11.07	9.93
103⅛	94⅜	Treas 10pc 2001	101⅜	+⅛	9.85	9.69
119¾	113⅛	Treas. 14pc '98–01	118⅞xd	+⅛	11.78	10.01
101¾	92¾	Treas 9¾pc 2002	100¼	+⅛	9.73	9.68
104⅛	94⅜	Treas 10pc 2003	102¼	+⅛	9.78	9.66

BRITISH FUNDS—Contd

1991 High	1991 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
111¾	102	Treas. 11½pc 2001–04	109⅜xd	+½	10.50	9.89
62⅛	53⅜	Funding 3½pc '99–04	60¾	+⅛	5.74	8.60
100¾	90¾	Conversion 9½pc 2004	98¾	+⅛	9.61	9.64
60⅛	57¾	Cv 9½pc 2004 A (£60pd)	58⅜	.....	9.61	9.64
100¾	90¾	Conversion 9½pc 2005	98⅞	+⅛	9.61	9.63
		Over Fifteen Years				
[illegible]						
		Undated				
[illegible]						
		Index-Linked (b)	**(1)**	**(2)**		
[illegible]						
145	137⅛	Do 2½pc '01	(78.3)	145	+⅛	3.84 / 4.15
140⅞	133	Do. 2½pc '03	(78.8)	140⅞xd	+⅛	3.91 / 4.18
143	135	Do. 2pc '06	(69.5)	142⅞	+⅛	4.01 / 4.22
130¾	124⅛	Do. 2½pc '09	(78.8)	130¾xd	+⅛	4.05 / 4.24
135	128⅛	Do 2½pc '11	(74.6)	134⅛	+⅛	4.06 / 4.24
111⅛	105⅛	Do. 2½pc '13	(89.2)	110⅛	+⅛	4.07 / 4.23
118¼	113⅛	Do. 2½pc '16	(81.6)	117⅛	+⅛	4.07 / 4.23
113⅛	109⅛	Do. 2½pc '20	(83.0)	113⅛xd	+⅛	4.08 / 4.22
95⅛	91⅛	Do. 2½pc '24‡‡	(97.7)	93⅞	+⅛	4.07 / 4.20

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1991: 130.9 and for September 1991: 134.6.

INT. BANK AND O'SEAS

1991 High	1991 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
107⅞	95⅞	African Dv Bk 11¼Ln 2010	105¾	+½	10.51	10.39
102⅝	91⅞	Asian Dev Bk 10¼pcLn2009	100¾	+⅛	10.18	10.16
116⅛	105¾	Int-Am Dev Bk 12½pc 2003	114¾	+⅛	10.93	10.28
97⅞	86⅞	Do. 9½pcLn 2015	95¾	+⅛	10.19	10.23
125	101	Intl. Mexican State 16½pc 2008	123⅛	.....	13.36	12.96

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

1991 High	1991 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
53	52	Met. Wtr. 3pc 'B'	53	.....	5.66	9.90

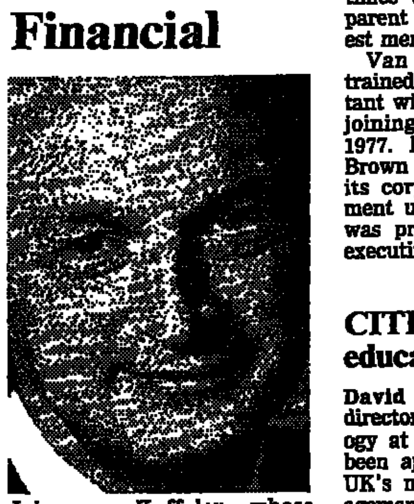
FOREIGN BONDS & RAILS

1991 High	1991 Low	Stock	Price £	+ or −	Div % Gross	Red. Yield
50	50	Greek 7pc Ass.	50	.....	3.50	f7.00
50	50	Do. 6pc 28 Stb. Ass.	50	.....	3	f6.00
50	50	Do 4pc Mixed Ass.	50	.....	2	f4.00
55	55	Hung. '24 Ass.	55	.....	2.75	f3.57
133¾	120¾	Hydro Quebec 15pc 2011	131¾	+⅛	15.0	11.03

Continued on next page

APPOINTMENTS

Van Kuffeler to Provident Financial



John van Kuffeler, whose resignation as chief executive of Brown Shipley Holdings in July surprised the City, has been appointed chief executive of PROVIDENT FINANCIAL, the Bradford-based financial services group.

Provident, which has been looking for a new chief executive since the death of Peter Hogg last May, has two core businesses – insurance and credit. With over 1m customers and a network of over 400 branches, it is best known as the UK market leader in the provision of weekly home-collected credit. Unlike many other UK financial services companies it has weathered the recession surprisingly well and its stock market capitalisation of £258m is roughly seven times that of Brown Shipley, parent of one of the City's oldest merchant banks.

Van Kuffeler, aged 42, trained as a chartered accountant with Peat Marwick before joining Grindlay Brandts in 1977. In 1983 he moved to Brown Shipley and was head of its corporate finance department until May 1988 when he was promoted to group chief executive.

CITI chairman's education priority

David Eggleton, a former director of information technology at British Petroleum, has been appointed to one of the UK's more challenging management education posts.

He was named last week as chairman of CRANFIELD INFORMATION TECHNOLOGY INSTITUTE (CITI), a wholly owned subsidiary of Butler Cox, the London-based management consultancy. It is a newly created post; Allan Fox remains as principal and managing director.

Eggleton, 55, takes up his post when the role of IT in business strategy has never been more important – or more controversial. IT is held by many to be a key to mastering the rapidly changing business environment, yet by and large senior managers doubt the value of their investment in computer systems.

Eggleton (below) sees his job in terms of its potential to change attitudes towards IT and its role in business. He is currently UK director of the Butler Cox Foundation, an organisation involving more than 100 companies in the UK and overseas which is designed to help organisations use IT more effectively.

Butler Cox is itself a subsidiary of the US Computer Sciences Corporation. Butler Cox bought CITI from its founders – the Cranfield Institute of Technology and several UK companies – last year, when it was clear the college had to seek broader horizons. It has since had its own Masters programme in business process design approved. Spreading the word of CITI's rejuvenated educational thrust will be Eggleton's first priority.

■ MORE O'FERRALL ADSHEL announces that Richard Daglish is to become joint managing director with Vincent Slevin. Daglish, currently sales director, will concentrate on sales and marketing and Slevin on developing and expanding the UK market.

■ David Wheeler has been appointed managing director of LEHMAN BROTHERS INTERNATIONAL. As head of its media group in Europe, he will manage the company's investment banking activities for media and communications industries. Wheeler, 39, previously spent 15 years with J P Morgan.

■ Matthew Panikar has been appointed managing director of RELIANCE EUROPE which has been set up by Reliance Industries – Bombay to co-ordinate internationalisation of operations from London. He spent more than 20 years with Unilever, most recently as Treasurer (UK & Overseas).

■ NORCROS announces that Joe Matthews, joint managing director of the ceramics division, has been appointed a director on the main board and chairman of the Norcros subsidiary, H&R Johnson Tiles, with Joe Mayer as managing director. The other joint managing director of ceramics, Mike Derbyshire, takes on the additional role of group corporate finance director.

LONDON SHARE SERVICE

AMERICANS

1991 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
34½	20¾	Abbott Laboratories¶	34½xd	+1⅛	$1.00	–	1.7
385p	225p	♥Allegheny & W 1c	234p	+5	30c	–	7.5
10¼	667p	Amdahl 5c	824pxd	+9	10c	–	0.7
42¼	25½	Amer. Cyanamid $5	37¾	+⅛	$1.50	–	2.4
17⅞	9⅞	Amer. Express 60c	11¼xd	–⅛	$1.00	–	5.3
24½	15¼	American T & T $1	22¼xd	+⅛	$1.32	–	3.4
38⅞	32½	Ameritech $1	36⅛	+⅛	$3.40	–	5.5
26⅜	12⅞	BankAmerica $1⅞	24xd	+⅛	$1.20	–	3.0
38⅞	20⅛	Bankers N.Y. $1	38⅛xd	+⅛	$1.52	–	7.6
30½	24¼	Bell Atlantic $1	26¼xd	+⅛	$2.52	–	5.6
31¼	25	BellSouth Corp	28¼	+⅛	$2.76	–	5.8
11¼	6⅞	♥Bethlehem Steel $8	8¾xd	–⅛	40c	–	2.7
1539p	1046p	Bowater Inc	1222p	–40	$1.20	–	5.8
54⅞	37⅞	CPC Intnl. 25c	48¼xd	+¼	$2.00	–	2.4
930p	420p	California Engy	870p	…	–	–	–
50	28¼	Campbell Soup 15c	44½xd	+⅛	$1.16	–	1.6
12¼	5¼	Chase Manhattan $12½	11⅞xd	+⅛	$1.20	–	6.4
9⅛	5½	Chrysler $6¼	6⅞xd	+⅛	60c	–	5.3
10½	5⅞	Citicorp $1	6¼xd	+⅛	–	–	–
26⅞	21⅞	Colgate-Palmolive $1	24⅞xd	+1¼	$1.06	–	2.5
928p	438p	Cont'l Bank Corp $4	574p	–22	60c	–	6.2
21½	13⅞	Dana Corp $1	16⅞xd	+⅛	$1.60	–	5.7
1262p	205p	Data General	1258p	+84	–	–	–
24½	12⅞	Dial Crop. $1.5	24½xd	+⅛	$1.40	–	3.4
29⅞	20¼	Dun & Bradstreet $1	28⅝	+⅛	$2.16	–	4.5
40	24¼	Eaton Corpn. 50c	37¾	+¼	$2.20	–	–
8½	5½	Echlin Inc	7¼xd	+¼	70c	–	5.7
20¼	14⅞	FPL Group 1c	20½xd	+⅛	$2.40	–	7.0
30⅞	17⅞	Fluor Corp 62½c	25⅞xd	+⅛	32c	–	0.7
23¼	13¼	Ford Motor $1	15⅞xd	–⅛	$1.60	–	3.7
46⅞	28⅞	Gen. Elect. 63c	41½xd	+⅛	$2.04	–	2.9

BUILDING, TIMBER, ROADS – Contd

DRAPERY AND STORES – Contd

ENGINEERING

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICITY

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INSURANCES

LEISURE

LONDON SHARE SERVICE

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUSTS

INVESTMENT TRUSTS—Contd

Net asset values supplied by County NatWest Wood Mackenzie as a guide only.

FINANCE, LAND, ETC

FINANCE, LAND, ETC—Contd

WATER

OIL AND GAS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

MINES—Contd

Australians

Tins

Miscellaneous

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ✢ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. [illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 48p per minute peak and 36p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
Gilts & Fixed Int.	6	116.2	116.2xd	123.2	+0.5	9.33
High Inc Equity	6	132.1	135.6xd	144.2	+0.9	5.89
Worldwide Bond	6	214.5	214.5	227.4	+1.0	6.60
Capital Growth						
American Growth	6	206.3	206.3	220.4	+2.7	1.01
Asian Pacific	6	119.0	121.6	129.3	+0.2	1.21
Assets & Earnings	6	183.1	186.7	198.6	+1.2	3.02
Capital Reserve Acc	0	109.9	109.9	109.9	+0.2	6.91
Capital Reserve Inc	0	86.89	86.89	86.89	-0.12	6.91
Commodity & Energy	6	77.50	77.50xd	82.88	+0.40	1.64
1992 Enterprise	6	65.33	65.33	69.87	-0.42	2.95
Euro Capital Acc	6	86.62	86.62	92.64	+0.56	1.12
Euro Capital Inc	6	82.75	82.75	88.50	+0.53	1.13
General	6	173.8	173.8	185.8	+0.9	2.69
Japan	6	105.0	106.2xd	112.9	+0.7	–
Mastertrust	6	91.98	91.98	98.37	+0.43	2.60
UK Growth Acc	6	171.8	171.8	183.7	+0.2	2.17
UK Growth Dist	6	109.4	109.4xd	117.0	+0.2	2.21
US Emerging Cos	6	73.74	75.17	79.96	+0.87	–
Income & Growth	6	305.3	305.3	326.5	+2.0	4.29
Ethical	6	53.69	53.69	57.42	+0.11	2.72
International	6	63.32	64.22	68.31	+0.42	1.29
Dividend & Growth	6	49.35	50.64	53.87	+0.38	5.57
Global Grth & Sec	6	52.64	52.96	56.33	+0.03	3.09

Aberforth Unit Trust Managers Ltd (1600)F
16 Chester St, Edinburgh EH3 7RA 031 220 0733

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
UK Small Cos	0	1126.0	1126.0	1179.0	...	0

Abtrust Unit Trust Managers Ltd (1200)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

[illegible]

Bishopsgate Progressive Mgmt Co (1200)F
15 St James' Place, London SW1A 1NW 071-493 8111

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Progressive Inc	5	518.61	18.61	19.64	-0.11	0.72
Progressive Acc	5	28.05	28.05	29.60	-0.16	0.72
International Inc	5	£19.68	19.68	20.77	...	0.49
International Acc	5	£26.70	26.70	28.18	...	0.49
Can & Foreign Inc	5	231.4	231.4	244.2	...	0.27
Can & Foreign Acc	5	276.5	276.5	291.8	...	0.27
Special Sits Inc	5	207.2	207.2	218.7	...	0.54
Special Sits Acc	5	225.0	225.0	237.5	...	0.54
PEP Inc	5	131.8	135.6	143.1	...	2.35
PEP Acc	5	140.7	144.8	152.8	...	2.35
Growth Inc	5	80.02	80.02	84.45	...	0.46
Growth Acc	5	80.84	80.84	85.32	...	0.46

Brewin Dolphin Unit Tst Mgrs Ltd (0905)F
5 Giltspur St, London EC1A 9DE 071-236 6441

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Dolphin Special Sits	5½	124.9	124.9	133.5	+0.3	3.31
Dolphin Dividend	5½	58.82	58.82	62.90	+0.06	6.05
Dolphin Int Inc & Gth	5½	158.2	158.2	169.1	+2.3	4.19
Dolphin UK & Gen	5½	35.11	35.28	37.73	+0.59	1.88
Dolphin Fund of Funds	5½	47.94	49.46	52.89	+0.36	1.21

Britannia Life Unit Managers Ltd (1200)F
190 West George St, Glasgow G2 2PA 041-332 3132

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Balanced Growth	6	77.90	78.36xd	83.81	+0.74	2.71
Do (Accum)	6	83.59	84.08	89.93	+0.80	2.71
Service Cos	6	68.22	68.22	72.97	+0.63	1.98
Do (Accum)	6	71.77	71.77	76.76	+0.63	1.98
Income Growth	6	42.78	42.78	45.76	+0.04	5.59
Do (Accum)	6	60.24	60.24	64.43	+0.06	5.59
Higher Yield	6	32.18	32.18xd	34.42	+0.03	4.90
Do (Accum)	6	41.23	41.23	44.09	+0.03	4.90
American Gth Inc	6	34.45	34.45	36.85	+0.55	1.08
Do (Accum)	6	35.11	35.11	37.55	+0.56	1.08
European Growth	6	24.49	24.49xd	26.20	+0.11	1.40
Do (Accum)	6	25.33	25.33	27.09	+0.11	1.40
Global Bond Inc	6	23.33	23.40	25.03	+0.04	6.03
Do (Accum)	6	26.96	27.04	28.92	+0.04	6.03
Managed P'folio Inc	6	25.70	25.79xd	27.58	+0.16	–
(Do Accum)	6	25.70	25.79	27.58	+0.16	–

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412262/3/4/5

[illegible]

For Geoffrey Morley see Commercial Union

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

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Sovereign Unit Tst Mngrs Ltd (1000)F

Standard Chartered Equitor (1200)F

Standard Life Tst Mngmt Ltd (0629)H

Stewart Ivory Unit Tst Mgrs Ltd (1200)H

Stockbroking Intl Inv Mngrs Ltd (1200)F

Sun Alliance Unit Tst Mngmt Ltd (1200)F

Sun Life of Canada Unit Mgrs Ltd (1000)H

Sun Life Trust Mngmt Ltd (1200)H

Swiss Life Unit Tst Man Co Ltd (1200)F

TSB Unit Trusts (1200)H

Target Trust Mngrs Ltd (1200)F

Templeton Unit Trust Managers Ltd (1200)F

Thornton Unit Managers Ltd (1000)F

Three Counties Asset Mngmt Ltd (1430)F

Timberlake Trust Mngrs Ltd (0900)F

Trades Union Unit Tst Mngrs (1200)H

United Charities Unit Trusts (1000)H

Waverley Unit Tst Mngmt Ltd (1000)F

Wessex Asset Management (1600)F

Whittingdale Unit Tst Mngmt Ltd (0830)F

Woolwich Unit Trust Managers Ltd (1700)H

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

James Capel Fund Managers Ltd

Cent. Bd. of Fin. of Church of England

Charities/Charinvest (1000)F

CAFINVEST-Charities Aid Foundation

COIF-Charities Official Inv Fdns

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Funds in Court

Henderson Unit Trust Management Ltd

INVESCO MIM Management Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

M & G Securities Ltd

Morgan Grenfell Unit Trust Managers Ltd

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

Rothschild Asset Management

J. Rothschild Fund Managers Ltd

Societe Generale Touche Remnant UT Mngt

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

INSURANCES

Abbey Life Assurance Co Ltd

Acuma Life Assurance Ltd

AEGON Life Assurance Co (UK) Ltd

Allied Life Assurance Co Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Assurance

Britannia Life Ltd

CCL Assurance Ltd

Canada Life Group

Cannon Assurance Ltd

Century Life Plc

Citibank Life

City of Westminster Assurance

Clerical Medical/Fidelity Investments

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Life Assurance Co

Commercial Union Group

Consolidated Life Assurance Co Ltd

Cornhill Insurance PLC

Crown Financial Management Ltd

Eagle Star Life Assurance Co Ltd

Eagle Star Insur./Midland Assur.

Equitable Life Assurance Society

Equity & Law

Eurolife Assurance Company Ltd

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident

General Portfolio Life Insur. Plc

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life Plc

Legal & General

Legal & General—Contd.

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MGM Assurance

Manchester Unity Assurance

Manulife Group

Manulife Group—Contd.

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

Continued on next page

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
N & P Life Assurance Ltd				
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348				
Life Managed Fd	107.7	113.4	----	-
Pension Managed Fd	106.0	111.6	----	-
Life Deposit Fd	110.3	116.1	----	-
Pension Deposit Fd	116.8	122.9	----	-

For National Fls see Target Life

	Bid Price	Offer Price	+ or -	Yield Gross
National Mutual Life				
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422				
Harvester Pension Funds				
Managed	168.5	177.4	----	-
UK Equity	179.1	188.6	----	-
Overseas Equity	134.8	141.9	----	-
Fixed Interest	153.3	161.4	----	-
Property	132.8	139.8	----	-
Index Linked	151.7	159.7	----	-
Deposit	162.9	171.5	----	-
With Profits (II)	133.3	140.3	----	-

	Bid Price	Offer Price	+ or -	Yield Gross
National Provident Institution				
48 Gracechurch St, London EC3P 3HH 071-623 4200				
Managed	357.4	376.3	+2.8	-
UK Equity	449.2	472.9	+2.0	-
Overseas Eq	347.7	366.0	+2.7	-
American	294.9	310.5	+2.8	-
Far East	382.2	402.4	+2.9	-
Property	194.1	204.4	+0.2	-
Fixed Int	271.3	285.6	+0.7	-
Indexed Gilt	161.5	170.1	+0.1	-
Deposit	186.9	196.8	----	-
With Profit	104.3	109.7	----	-
Pension Fund (Accum Units)				
Managed	515.7	542.9	+2.8	-
UK Equity	609.0	641.1	+2.4	-
Overseas Eq	588.4	619.4	+6.5	-
Americas	372.9	392.6	+5.7	-
Far East	627.8	660.9	+4.1	-
Property	246.9	259.9	+0.2	-
Fixed Int	337.2	355.0	+0.8	-
Indexed Gilt	176.3	185.6	+0.1	-
Deposit	264.6	278.6	----	-
NPI Pensions Management Ltd				
Managed Fund	1139.4	1199.7	----	-

Prices October 1 Next dealing November 1

	Bid Price	Offer Price	+ or -	Yield Gross
Providence Capital Life Assc. Co Ltd				
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888				
UK Equity Acc	227.8	240.4	+1.1	-
UK Fixed Int Acc	186.3	196.6	----	-
Intl Equities Acc	176.6	186.3	+1.5	-
UK Managed Acc	175.8	185.4	+0.6	-
Property Acc	226.3	238.8	----	-
Money Acc	133.0	140.3	----	-
Special Market Acc	152.0	160.4	-0.3	-
Japan Equity Acc	107.8	113.8	+1.1	-
North American Acc	105.2	111.0	+1.3	-
Pacific Acc	95.9	101.2	+0.6	-
Technology Acc	124.4	131.3	+0.8	-
Nat Resources Acc	57.5	60.7	-0.5	-
European Acc	100.8	106.4	+0.6	-
Residential Prop Acc	94.5	99.7	----	-
Swiss Equities Acc	33.5	35.4	+0.4	-
Hong Kong Acc	68.4	72.2	+0.3	-
UK High Inc Eq Acc	74.0	78.1	+0.3	-
Int Fixed Interest Acc	61.1	64.5	+0.1	-
Int Managed Acc	57.0	60.1	+0.3	-
HIP Managed Acc	118.2	124.6	+0.5	-
HIP Managed II Acc	103.2	108.8	-0.1	-
HIP Managed III Acc	110.8	116.8	+0.3	-
Total Investment Bond				
UK Equity Initial		194.6	+0.7	-
UK Fixed Int Initial		126.7	----	-
Intl Equities Initial		119.1	+0.9	-
UK Managed Initial		119.5	+0.4	-
Property Initial		154.9	----	-
Money Initial		90.8	----	-
Special Market Initial		117.8	-0.3	-
Japan Equity Initial		83.6	+0.9	-
North American Initial		81.5	+1.0	-
Pacific Initial		74.3	+0.5	-
Technology Initial		96.4	+0.6	-
Nat Resources Initial		44.5	-0.5	-
European Initial		90.2	+0.5	-
Residential Prop Init		90.1	----	-
Swiss Equities Initial		31.9	+0.3	-
Hong Kong Initial		65.2	+0.3	-
UK High Inc Eq Init		70.5	+0.2	-
Int Fixed Interest Init		59.0	+0.1	-
Int Managed Init		56.2	+0.3	-
HIP Managed Init		114.6	+0.5	-
HIP Managed II Initial		101.5	----	-
HIP Managed III Init		110.1	+0.3	-
Broker Funds				
High Performance	74.9	79.0	-0.1	-
Tweedhill Mngd Fd Acc	53.3	56.2	+2.6	-

[illegible]

	Bid Price	Offer Price	+ or -	Yield Gross
Albany Life	120.7	127.0	+1.0	-
Clerical & Medical Ltd	131.3	138.3	+1.3	-
Guardian Royal Exch	103.4	108.9	+0.4	-
Norwich Union Assl Mgr	64.8	68.2	+0.4	-
Scot Equitable (Life)	173.1	182.2	+0.5	-
Scot Equitable (Pens)	134.9	142.0	+0.5	-
Scot Mutual (Life)	186.5	196.4	+0.7	-
Scot Mutual (Pens)	174.7	183.9	+0.6	-
Scot Mutual Venture Fd	120.4	126.8	+0.4	-
Prudential Holborn	123.6	130.2	----	-
J. D. Ward Financial Services Ltd				
9 Kingsway, London, WC2 B6XF. 071-836 4321				
J.D. Ward Mngd Bond	208.3	221.0	-1.5	-
J.D. Ward Mngd Pen	128.7	138.4	-1.8	-
Albany Life Acc	196.8	207.1	+0.9	-
Albany Pens Acc	251.2	264.4	+1.4	-

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Orion Fund Limited						
6 Front St., Hamilton, HM11, Bermuda 809 295 4000						
Orion			$-	11.896	----	-

CANADA (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Ivory & Sime Pembroke Inc						
UK Agent: Ivory & Sime Plc. One Charlotte Square, Edinburgh EH2 4DZ 031 225 1357						
CBC Nth America Inc*			C$-	3.47	----	-
Approx Stlg Equiv			£-	1.80	----	-

*Deal† 3 Thursdays-Forward. Redemption Fee 1%

GUERNSEY (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Adams & Neville Fd Mangt (Guernsey) Ltd						
PO Box 255 St Peter Port Guernsey CI 0481 710651						
Worldinvest Bond Fund Inc			£-	1.44	1.50	----	-
Worldinvest Cap Fd Acc			$-	1.19	1.26	----	-
BBV-Hambros Asset Mangmt (Guernsey) Ltd						
PO Box 255, St Peter Port, Guernsey CI 0481 710651						
Bilbao-Vizcaya Euro	3	[illegible]	12.63	13.00	----	-
Baring Intl Fd Managers (Guernsey) Ltd						
PO Box 255, St Peter Port, Guernsey 0481 710651						
Sterling Money	3	£1.105	1.1126	1.1459	[illegible]
Equitable International Fund Managers Ltd						
PO Box 255, St Peter Port Guernsey CI 0481 710651						
Sterling High Yld	1	£1.023	1.023	1.033	[illegible]
Grofund Invest Managers (Guernsey) Ltd						
PO Box 255, St Peter Port, Guernsey CI 0481 710651						
Grofund International Ltd						
Int Int Equity Mgd	5	[illegible]	0.8014	0.8635	----	-
Int Equity Mgd	5	[illegible]	0.7893	0.8509	----	-
£ Cash	5	1£-	-		----	-
£ Intl Equity Mgd	5	£1.431	1.431	1.543	----	-
£ Intl Bond	5	£-	-		----	-
£ Cash	5	£1.067	1.067	1.120	----	-
£ Intl Mngd	5	£-	-		----	-
Guinness Flight Fd Mngrs (Guernsey) Ltd						
PO Box 250, St Peter Port, Guernsey 0481 712176						

GUERNSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Adams & Neville Fund Mngt (Guernsey) Ltd				
Worldinvest Emer Co	$0.59	0.63	----	-
Arab Bank Fund Managers (Guernsey) Ltd				
ABL International Fund Ltd				
Managed Currency	$10.79	10.80	----	-
International Bond	$10.86	10.89	----	-
Bachmann Global Investment Fund Ltd				
International Bond	$127.69	130.89	----	-
Cash, Gilt & Stlg Fxd Inc	£13.33	13.64	----	-
Credit Suisse Asset Mangmt (Guernsey) Ltd				
Olympic Options Ltd	£9.7819	10.0858	----	-
Olympic Options Intl Ltd	$10.26	10.58	----	-
Dambrast Management (Guernsey) Ltd				
Dambrast Limited	DKr1314	133.9	----	-
Fipart-Conseil Fund Mngrs (Guernsey) Ltd				
Ranceville G & B Fd	SFr8.82	8.92	----	1.52
John Govett Mngmt International Ltd				
Govett Far East Inv	$0.935	0.997	+0.005	-
Energy & Resources	$0.648	0.693	+0.007	-
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$10.544	11.1133	----	-
Hamlet Throgmorton Mngmt Ltd				
Global Equity	£1.015	1.087	----	-
Intl Inv-Stlg High Inc	£10.672	11.290	----	8.60
Intl Inv-Intl High Inc	$48.534	51.195	----	4.91
Henderson Admin. (Guernsey)				
Balanced Gwth $ Prtflo	$1.993	2.135	-0.009	-
Balanced Gwth £ Prtflo	£1.252	1.339	+0.009	-
Select Mkts $ Prtflo	$2.050	2.177	-0.013	-
Inc & Gwth $ Prtflo	$1.632	1.731xd	-0.004	-
Holborn Fund Management (Guernsey) Ltd				
Holborn Currency Fund				
Managed Sterling	137.0	137.4xd	-0.3	9.48
Managed Dollar	$13.77	13.81xd	+0.03	7.89
Sterling Deposit	100.0	100.0	----	10.37
Dollar Deposit	$10.00	10.00	----	-
DM Deposit	DM52.00	52.07	----	6.56
SWFr Deposit	SFr50.00	50.00	----	-
J. Yen Deposit	Y5,145	5,164	----	5.96
Kleinwort Benson Intl Fd Mngrs Ltd				
KB Inc.Ac.Bd.Acc*	£10.275	10.835	----	-
*Offer price inclusive of maximum preliminary charge				
Kleinwort Benson Islamic Fd Mngmt Ltd				
Islamic Fund	$6.25	6.71	----	-
Lazard Fund Managers (CI) Ltd				
Lazard Cap. Gwth Bond	$3128.73	3305.30	-2.74	6.06
Lazard Cur Acc Fd £	£20.93	20.94	+0.04	9.85
Lazard Cur Acc Fd US$	$15.44	15.45	+0.02	4.28
Lazard Cur Acc Fd Y	Y4,060	4,070	----	5.75
Lazard Cur Acc Fd DM	DM55.40	55.41	+0.08	7.81
Lazard Cur Acc Fd SF	SFr39.68	39.69	+0.05	6.77
Lazard Cur Acc Fd FF	FFr171.65	171.66	+0.28	8.23
Lazard Cur Acc Fd Mlt	$16.13	16.95	-0.09	-
Lazard D'fied Bnd (Inc)	$19.31	20.34	-0.22	6.98
Lazard D'fied Bnd (Acc)	$26.88	28.31	-0.30	-
Lazard European Fund	$46.25	49.02xd	-0.19	1.00
Lazard Far East	$52.36	55.86	----	-
Lazard Global Equity	$27.14	28.92	----	-
Lazard Int Inc $ (Inc)	$1042.48	1098.44xd	-2.83	6.90
Lazard Int $ Inc (Acc)	$2607.79	2746.87	-6.95	-
Lazard Int Inc £ (Inc)	£9.35	9.83xd	----	8.88
Lazard Int Inc £ (Acc)	£13.74	14.47	----	-
Lazard Japan Fund	$52.20	55.79	-1.09	-
Lazard Nth Am	$23.05	24.52	-0.26	1.00

[illegible]

FT MANAGED FUNDS SERVICE

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Baring International Fd Mngrs (Ireland) Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Australia	$17.33	18.20	+0.10	1.05
Japan Tech	$62.61	65.75	-0.46	-
Japan Fund	$26.25	27.57	-0.21	0.17
Japan New Garia Fd	$20.21	21.23	-0.36	-
Malay Sing	$52.57	55.20	+0.07	0.31
Nth American	$21.40	22.47	-0.16	0.58
Octopus Fund	$21.06	22.12		0.88
Pacific Fd	$63.37	66.54	-0.38	-
International Bond	$17.35	18.22	+0.04	6.89
Europa Fund	$13.06	13.72	-0.05	-
British Screen Fd	£0.93	0.98	.....	-
Trislar Warrant	$10.40	10.92	+0.06	-
Hong Kong	$49.69	52.18	+0.17	3.09
Mngd Portfolio (Stlg)	£4.16	4.48	-0.04	-
Mngd Portfolio (Dllr)	$10.09	10.65	-0.10	-
Currency Fd-Sterling	£19.57		+0.01	-
Currency Fd-US Dollar	$15.39		...	-
Curr Fd-Deutschemark	DM40.66		+0.02	-
Curr Fd-Managed $	$44.72	46.95	-0.15	-

Federated International Funds Plc

Federated Short-term US Gov't Securities Fund

Institutional Svc Series*	$1.00		...	5.33
Investment Series*	$1.00		...	5.33

* Annualised Yield

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1600)F

Lord Street, Douglas, IoM 0624 661551

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
ADI Managed(z)	5	[illegible]	0.5829	0.6207	[illegible]	1.32
ADI Mgd Currency(z)	5	[illegible]	0.3915	0.4128	[illegible]	[illegible]
ADI W'wide Eqty(z)	5	[illegible]	0.6472	0.6892	[illegible]	1.12
ADI Nth Amer Gth(z)	5	[illegible]	0.7685	0.8184	[illegible]	0.01
ADI Far East (z)	5	[illegible]	1.115	1.187	+0.01	1.12
ADI Gilt & Income(z)	5	[illegible]	0.2533	0.267	[illegible]	8.54
ADI UK Cap Gth (z)	5	[illegible]	0.2304	0.2453	[illegible]	3.3
ADI Europe Fd (z)	5	[illegible]	1.133	1.204	[illegible]	1.43

Midland Bank Fund Managers (Jersey) Ltd

PO Box 26, St Helier, Jersey 0534 606000

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Intl Growth Portfolio	6	[illegible]	1.0808	1.0826	-0.002	1.62
Gilt	3	[illegible]	0.9332	0.9622	[illegible]	10.39

For MIM see INVESCO MIM

Royal Trust Jsy Fd Mngt Ltd (1400)F

PO Box 428, St Helier, Jersey 0534 76077

Govt Secs Fd	4	56.46	56.46	58.80	-0.03	9.52

TSB Trust Funds (CI)

PO Box 538, St Helier, Jersey 0534 73494

TSB Offshore Investment Fund Ltd

Stg Deposit Class	3	102.05	102.05	105.11	+0.01	10.00
Gilt & Fixed Interest	3	104.77	104.77	108.63	+0.28	7.92
BlueChip & Gilt Edge	5	50.35	50.35	53.64	+0.50	3.73
International Bond	5	109.82	109.82	116.33	+1.30	5.50
UK Equity	5	138.18	138.18	149.06	+0.69	0.93
International Equity	5	118.85	118.85	126.88	+0.25	0.00
Far Eastern	5	94.64	94.64	101.30	+0.64	0.00
European	5	85.43	85.43	90.53	+0.85	0.00
Pan American	5	148.53	148.53	157.97	+2.03	0.00

TSB Gilt Fund Ltd

Quarterly Share	3	97.22	97.22	100.47	+0.26	10.25
Monthly Share	3	96.86	96.86	100.08	+0.26	10.29

JERSEY (REGULATED)(**)

Barclays Intl Funds

Currency Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Sterling	£21.27		+0.02	9.6
US Dollar	$31.40		...	4.2
Deutschemark	DM55.13		+0.01	8.0
Yen	Y4,040		+0.001	5.5
Managed Multicurrency	£13.35	13.83		-
Managed Multicurrency	$25.20	26.10	+0.01	-

Bond Funds

Sterling Bond	£0.403	0.419	+0.001	10.5
US Government Income	$96.90	100.39	+0.11	6.6

LUXEMBOURG (SIB RECOGNISED)

Hill Samuel Inv Services Intl SA (u)

Marktgasse 63/65, 3001 Berne, Switzerland 224051

Banque Ferrier Lullin (Lux) SA

Banque Paribas Luxembourg

Top Brand Fund Intl-SICAV (u)

GT Management Plc-Contd.

Nomura Warrant Fund 1990 Ltd

North Star Fund Managers (Cayman) Ltd

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Consumer data weaken dollar

THE DOLLAR fell yesterday after a sharp decline in US consumer confidence to levels consistent with a recession fuelled speculation that there could soon be an easing in American monetary policy.

The US currency closed in London at its lowest level for a week after the Conference Board announced that its index of US consumer confidence had fallen to 60.4 in October from September's 72.9 and compared with expectations of 62 to 66.

Currency dealers reported selling pressure in Europe and New York after the figures were released, although some of the dollar's decline was simply a mark-down. Turnover levels were still said to be depressed and this tended to exaggerate the dollar's movements.

The markets had opened optimistically, ahead of what was hoped would be positive US third quarter gross national product figures. The 2.4 per cent rise in GNP had been widely anticipated, while the 1.8 per cent increase in GNP price deflator (an inflation measure) after the 4.5 per cent rise in the previous quarter was better than expected.

However, a sharp fall in net exports unsettled the markets. Most economists believe export growth must be sustained if the US is to emerge strongly from recession

After the GNP figures the dollar drifted gently lower. But it was the report on consumer confidence which hurt the dollar. The Conference Board described the sharp drop as a return to "recession levels", with the October index now only 6 points higher than the level reached at the trough of the 1982 recession.

The Conference Board's report was particularly damaging to the dollar because the markets believe consumer spending will pull the economy out of recession.

Mr David Cocker, treasury adviser at Chemical Bank in London, said there is now a widespread suspicion that the Federal Reserve will respond to the signs of weak growth by signalling to the money markets that it wants to lower the Federal Funds rate by ¼ of a percentage point to 5 per cent.

That could then be followed by a half-point reduction in the discount rate after the policy-setting Federal Open Market Committee meets on November 5.

The trigger for lower rates could be the October employment report on Friday. Economists forecast non-farm payroll employment rose by 25,000, little changed on September's increase. If employment decreases, however, the Fed could move to lower the Fed Funds rate that afternoon.

The dollar closed lower at DM1.6905 from DM1.7090; at SFr1.4775 from SFr1.4985; at Y130.75 from Y132.15; and at FFr5.7700 from FFr5.8325.

The US unit's decline sparked off a move into European currencies. The peseta continued to strengthen within the ERM, and it now stands 5.58 per cent above the weakest currency compared with 4 per cent earlier in the month.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Oct 29	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	128.732	−3.67	5.21	64
Belgian Franc	42.4032	42.1390	−0.62	1.99	35
Italian Lira	1538.24	1530.67	−0.49	1.85	29
Dutch Guilder	2.31643	2.30680	−0.42	1.78	25
D-Mark	2.05586	2.04751	−0.41	1.77	32
Irish Punt	0.767417	0.765490	−0.25	1.61	16
Sterling	0.696904	0.703225	0.91	0.44	−18
Danish Krone	7.84195	7.93843	1.23	0.12	−52
French Franc	6.89509	6.98838	1.35	0.00	−69

£ IN NEW YORK

POUND SPOT - FORWARD AGAINST THE POUND

STERLING INDEX

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

CURRENCY MOVEMENTS

CURRENCY RATES

EURO-CURRENCY INTEREST RATES

OTHER CURRENCIES

EXCHANGE CROSS RATES

Oct.29	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Ecu
£	1	1.723	2.913	225.3	9.938	2.545	3.280	2178	1.937	59.95	1.425
$	0.580	1	1.691	130.8	5.768	1.477	1.904	1264	1.124	34.79	0.827
DM	0.343	0.591	1	77.34	3.412	0.874	1.126	747.7	0.665	20.58	0.489
YEN	4.439	7.648	12.93	1000.	44.11	11.30	14.56	9667	8.597	266.1	6.325
F Fr.	1.006	1.734	2.931	226.7	10.	2.561	3.300	2192	1.949	60.32	1.434
S Fr.	0.393	0.677	1.145	88.53	3.905	1	1.289	855.8	0.761	23.56	0.560
N Fl.	0.305	0.525	0.888	68.69	3.030	0.776	1	664.0	0.591	18.28	0.434
Lira	0.459	0.791	1.337	103.4	4.563	1.169	1.506	1000	0.889	27.53	0.654
C$	0.516	0.890	1.504	116.3	5.131	1.314	1.693	1124	1	30.95	0.736
B Fr.	1.668	2.874	4.859	375.8	16.58	4.245	5.471	3633	3.231	100.	2.377
Ecu	0.702	1.209	2.044	158.1	6.974	1.786	2.302	1528	1.359	42.07	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

PARIS

BASE LENDING RATES

MONEY MARKETS

Easier US rates

SPECULATION that US interest rates could soon be lowered to stimulate the flagging American economy pushed money market rates down yesterday.

US money rates led the way with bond yields falling sharply after the Conference Board reported a surprisingly large decline in consumer confidence in October.

Treasury bonds rose by 1½ points, while at the short-end, December Eurodollar futures added 17 points to 94.69. If the October employment report, released on Friday, also paints a picture of weak growth dealers believe the Federal Reserve will lower rates.

In its domestic money market dealings, the Fed refrained from reserve operations disappointing expectations that it would drain funds. Fed funds were trading at 5⅜ per cent, just below the Fed's presumed target of 5¼ per cent.

Dealers believe if the Fed eases, it will initially signal to the money markets that it wants to see Fed funds at 5 per cent. That may be followed by a ½ point cut in the discount rate on November 5, when the Federal Open Market Committee next meets.

UK interest rate futures followed Eurodollars higher. The weakness in the dollar helped sterling and this provided further support.

A more optimistic report from the Confederation of British Industry added to a greater sense of optimism on the economy. The December short sterling contract added 11 to 89.88.

However, on the wholesale money markets there were no signs that dealers believe there will be a reduction in interest rates this year. The key three months inter-bank rate was unchanged at 10½-⅝ per cent.

Money dealers say that as long as sterling remains close to the DM2.90 level, which the Bank of England chose to defend earlier in the month, there is little prospect of a rate cut. Sterling closed at DM2.9125, up slightly on the day.

Short-term money rates were initially easier after the Bank of England forecast a money market shortage of £450m, which was later revised to £500m. Rates hardened later in the session after only £392m of assistance was provided.

A large shortage is expected today as the Bank sells some of the bills back to the market which it bought earlier this month. A liquidity shortage of £1.0-1.1bn is forecast by money market dealers.

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

MONEY MARKET FUNDS

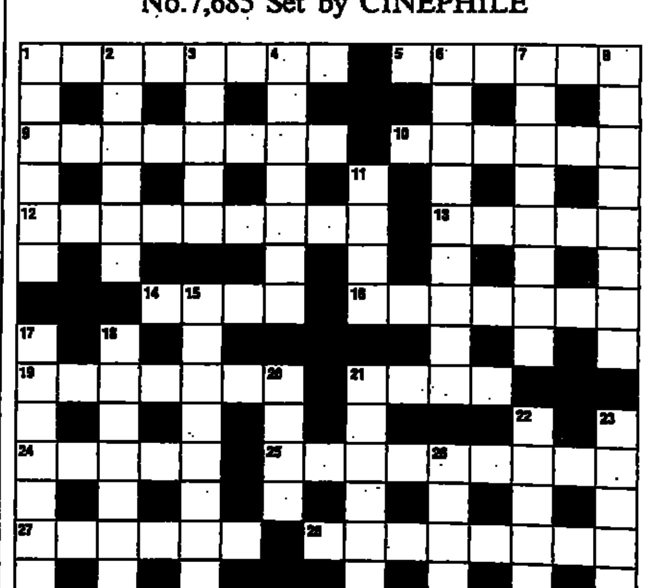
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,685 Set by CINEPHILE



F has the same meaning throughout

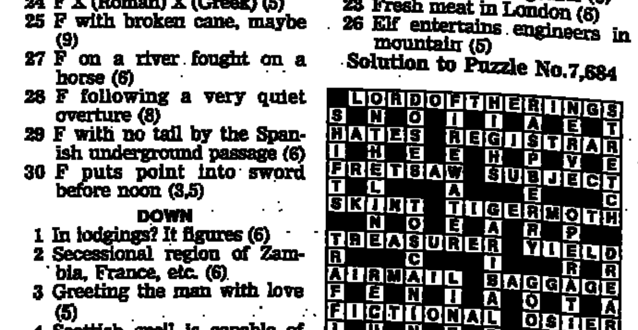
ACROSS

1 F for fashion king, a water bird (8)
5 Spots compiler leaving ungrammatical Fs (6)
9 F or G F F (8)
10 F for second lot of nuts (6)
12 F with no tail on support aircraft (5-4)
13 F after person that's holy, maybe stainless (5)
14 Jack leaves F: leave put most of captain F (4)
16 F among little sisters of religious sect (7)
19 F that's on a lady's finger (7)
21 F for old weapon (4)
24 F X (Roman) X (Greek) (5)
25 F with broken cane, maybe (9)
27 F on a river fought on a horse (6)
28 F following a very quiet overture (8)
29 F with no tail by the Spanish underground passage (6)
30 F puts point into sword before noon (3,5)

DOWN

1 In lodgings? It figures (6)
2 Secessional region of Zambia, France, etc. (6)
3 Greeting the man with love (5)
4 Scottish spell is capable of stumbling (7)
6 See an F called Shylock? (4,5)
7 Introduced to the audience by politician before entering F (8)
8 Celebrated young lady that's for burning (8)
11 Stop using piece of music (4)
15 Titled group getting egg – I thank producer (9)
17 Gossip showing pet about to marry? (8)
18 Splendid sound (if with light) for descendent (3)
20 Open wide with note to copy (4)
21 Go-ahead sort of food? (4,3)
22 Promise to get together (6)
23 Fresh meat in London (6)
26 Elf entertains engineers in mountain (5)

Solution to Puzzle No.7,684



WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY · ITALY · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · AUSTRALIA · HONG KONG · MALAYSIA · SINGAPORE · JAPAN

CANADA

TORONTO

4:00 pm prices October 29

MONTREAL

4:00 pm prices October 29

Total Sales 19,988,400 shares

INDICES

NEW YORK

DOW JONES	Oct 29	Oct 28	Oct 25	Oct 24	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	3061.94	3045.62	3004.92	3016.32	3077.15 (18/10)	2470.30 (9/1)	3077.15 (18/10/91)	41.22 (2/7/32)
Home Bonds	97.02	96.97	96.87	96.90	97.55 (18/10)	91.30 (16/1)	97.55 (18/10/91)	54.99 (1/10/81)
Transport	1274.48	1266.07	1244.96	1252.62	1287.56 (18/10)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	215.01	214.45	213.51	212.76	220.89 (16/4)	195.17 (10/7)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High (a) (3055.23) Low (d) (3001.57)

STANDARD AND POOR'S	Oct 29	Oct 28	Oct 25	Oct 24	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	391.48	389.52	384.20	385.07	396.64 (28/8)	311.49 (9/1)	396.64 (28/8/91)	4.40 (1/6/32)
Industrials	462.61	460.61	454.37	455.75	472.01 (29/8)	364.90 (9/1)	472.01 (29/8/91)	3.62 (21/6/32)
Financial	31.63	31.34	30.75	30.92	32.24 (14/8)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	215.58	214.44	211.82	212.32	217.17 (28/8)	170.97 (9/1)	217.17 (28/8/91)	4.46 (25/4/42)
Amex Mkt. Value	381.62	379.29	376.43	377.73	382.49 (18/10)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	534.51	529.41	525.13	528.75	540.94 (16/10)	355.75 (14/1)	540.94 (16/10/91)	54.87 (31/10/72)

	Oct 25	Oct 18	Oct 11	year ago (approx.)
Dow Industrial Div. Yield	3.09	3.00	3.10	4.17
	Oct 23	Oct 16	Oct 9	year ago (approx.)
S & P Industrial div. yield	2.73	2.69	2.81	3.42
S & P Indl. P/E ratio	21.17	21.44	20.53	14.86

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Horsham	4,818,100	9	- ¼
Glaxo	3,390,500	55¾	+ 2
Salomon Inc	3,032,800	28¾	+ 2¼
Compaq Com	2,436,800	28¾	- ⅝
Citicorp	2,271,900	11	+ ¼
RJR Nabisco	2,202,000	10¼	- ⅛
Pepsico	2,195,400	28½	+ ½
Telefonos	2,185,000	42¾	+ ⅜
Philip Morris	2,006,400	69¼	- ¼
Amer Express	1,878,100	18⅞	- ¼

TRADING ACTIVITY

† Volume (Millions)	Oct 29	Oct 28	Oct 25
New York SE	192.700	160.220	167.260
Amex	18.036	12.273	14.484
NASDAQ	(u)	145.912	173.954
NYSE			
Issues Traded	2,138	2,098	2,115
Rises	1,024	999	669
Falls	606	598	909
Unchanged	508	501	537
New Highs	99	60	43
New Lows	20	22	25

CANADA

TORONTO	Oct 29	Oct 28	Oct 25	Oct 24	1991 HIGH	1991 LOW
Metals & Minerals	3001.05	2967.09	2965.83	2974.53	3299.99 (18/7)	2632.06 (9/1)
Composite	3485.42	3455.84	3434.17	3446.94	3582.07 (7/6)	3161.95 (15/1)
MONTREAL Portfolio	1848.02	1830.19	1815.84	1822.82	1903.86 (7/6)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Oct 29	Oct 28	Oct 25	Oct 24	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1651.7	1642.8	1641.6	1645.3	1651.7 (29/10)	1204.5 (16/1)
All Mining (1/1/80)	666.0	665.9	665.2	666.0	707.2 (24/7)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	399.61	401.34	410.64	417.22	534.81 (16/4)	390.84 (15/1)
BELGIUM						
BEL20 (1/1/91)	1104.49	1104.31	1104.37	1104.40	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	366.94	365.31	364.60	364.39	380.04 (2/8)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	836.9	836.7	841.8	839.8	1186.9 (8/4)	836.7 (28/10)
FRANCE						
CAC General (31/12/82)	495.58	490.73	488.12	489.30	497.62 (2/10)	394.88 (15/1)
CAC 40 (31/12/87)	1863.50	1852.07	1834.80	1831.61	1887.29 (1/10)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	655.13	647.99	649.11	653.77	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	1843.9	1822.6	1826.4	1839.7	2035.2 (30/5)	1612.5 (15/1)
DAX (30/12/87)	1590.75	1576.81	1572.03	1579.01	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	4000.05	3988.60	3971.90	3989.34	4093.41 (3/10)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1431.87	(c)	1425.25	1437.62	1520.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	514.25	518.27	521.19	525.85	619.38 (3/6)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	25140.61	24901.72	24906.43	24949.26	27146.91 (18/3)	21456.76 (19/8)
Tokyo SE (Topix) (4/1/68)	1886.07	1875.57	1879.63	1886.63	2028.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	2853.27	2849.56	2843.64	2837.37	3423.45 (10/5)	2473.52 (24/1)
MALAYSIA						
KLSE Composite (4/4/86)	534.69	535.43	530.44	533.54	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Tot.Rtn.Gen.(End 1983)	279.9	279.8	277.9	278.6	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	196.8	196.8	195.5	196.0	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	721.12	719.16	716.50	718.06	793.53 (26/8)	618.45 (21/1)
PHILIPPINES						
Manila Comp (2/1/85)	1009.56	1007.09	1008.17	1008.13	1183.40 (29/5)	582.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	387.11	385.63	386.83	390.28	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1176.0	1187.0	1195.0	1200.0	1469.0 (5/7)	971.0 (25/2)
JSE Industrial (28/9/78)	4195.0	4161.0	4157.0	4155.0	4237.0 (10/9)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	694.45	693.09	708.07	711.29	763.10 (6/8)	590.57 (22/6)
SPAIN						
Madrid SE (30/12/85)	264.77	265.38	263.44	265.06	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affarsvärlden Gen. (1/2/37)	1005.4	995.8	994.0	995.4	1149.8 (11/7)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	760.6	761.2	755.3	765.1	769.2 (29/8)	590.4 (14/1)
SBC General (1/4/87)	613.9	614.3	610.7	618.2	638.3 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	4364.45	4381.69	(c)	4253.73	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	627.02	624.93	624.04	622.55	988.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	518.0*	516.4	514.6	516.9	529.2 (17/4)	439.1 (16/1)

**Saturday October 26: Taiwan Weighted Price: (c) Korea Comp Ex. 701.81. *Calculated at 15.00 GMT. ‡ Subject to official recalculation. † Correction. Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday, 29 October, 1991

	Stocks Traded	Closing Prices	Change on day
Honshu Paper	16.0	1,010	+69
Ishihara Sangyo	15.1	802	+14
Meiji Milk Prods	8.6	1,200	+30
Navix Line	6.1	570	-5
Japan Storage B	5.9	1,230	-10
Bando Chemical	5.1	760	+2
Osaka Gas	5.1	605	-9
Tobu Rail	4.6	923	+14
Howa Machinery	4.0	1,180	+60
Kawasaki Kisen	3.6	620	+2

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) Unavailable. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

.00 pm prices October 29

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
18⅞	9¼	AAR Corp x	0.48	0.03	19	156	14½	14¼	14⅛	
20½	14½	A L Labs A	0.16	0.01	22	473	20¼	19½	20	
55⅞	40⅞	AMP Inc x	1.44	0.03	19	1429	51¾	51⅛	51½	-½
68⅝	44¼	AMR				123908	65½	64½	64½	-⅜
2⅜	1	ARX			1	62	1⅝	1½	1⅝	+⅛
60	41½	ASA	3.50	0.07	14	492	48⅛	47½	48⅜	+½
58⅞	39¼	Abbott Lab	1.00	0.02	23	6495	u58⅞	58	58⅝	
14⅞	9⅞	Abitibi Pr	0.50	0.04	25	3	13⅝	13½	13⅝	+⅛
11⅜	10⅜	ACM Gvt In	1.26	0.12		646	10⅞	10¾	10⅞	
9¾	8¾	ACM GvOpp	1.01	0.11		227	9⅜	9¼	9⅜	+⅛
9½	8¼	ACM Gvt Sp	1.01	0.11		237	9¼	9	9¼	+⅛
11	9⅞	ACM Gvt Se x	1.26	0.12		326	10½	10⅜	10½	
9	7⅝	ACM Man	1.01	0.12		427	8¾	8⅝	8⅝	
12⅞	11½	ACM Managd	1.35	0.11		124	12¾	12⅝	12⅝	-⅛
7½	4¾	Acme Cleve x	0.40	0.06	17	48	6½	6⅜	6⅜	
6	3⅜	Acme Elect			2	63	4⅞	4⅝	4¾	
40	22¾	Acuson			25	1283	37	35¾	36½	+½
19¼	14¼	Adams Expr	0.73	0.04	0	93	u19¼	19⅛	19¼	+⅛
20⅛	17½	Adobe12P x	2.40	0.13		3	19	19	19	+⅛
8¾	6⅝	Adobe Res			46	462	7⅛	7	7	-¼
38⅜	18	Ad Micro				34	33⅝	33¼	33⅜	+⅜
14¾	4⅝	Ad Micro P	3.00	0.27	84	4800	11	10⅝	11	+⅜
5⅛	2¼	Advest Grp	0.16	0.04	6	71	3⅞	3⅞	3⅞	
49⅛	31⅞	Aetna Lf x	2.76	0.07		72725	38⅛	37⅝	37⅝	-⅞
10⅜	6⅜	Affil A x	0.24	0.03	53	1257	8	7¾	8	
20⅞	12	Ahmanson x	0.88	0.05	10	3668	16⅞	16⅝	16⅞	+¼
17	2⅞	Aileen Inc			15	637	15½	15	15⅛	+⅛
74⅛	51⅛	Air Pr Chm	1.56	0.02	16	529	68¾	68	68¾	+⅞
30	16⅝	Airbne Frt	0.30	0.01	17	1547	25½	24⅞	25½	+1⅛
18⅞	12½	Airgas Inc			115	668	u20⅞	19⅞	20⅝	+1⅛
15¾	10	Airlease	1.88	0.14	6	45	12¼	12	12	-⅛

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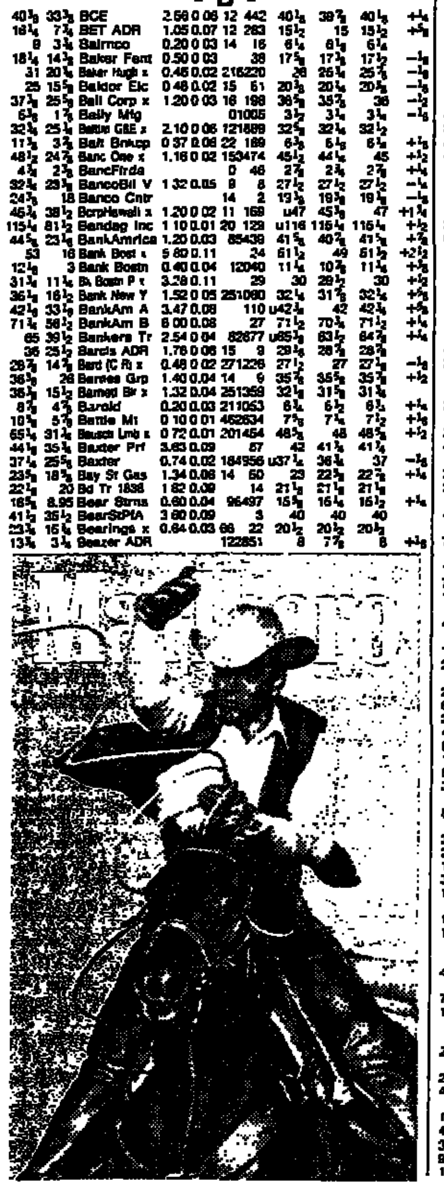

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NYSE COMPOSITE PRICES

Continued from previous page

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
60½	37	Rubbermaid x	0.68	0.01	30	1558	u60½	59½	60⅛	+¼
16¼	13½	Ruddick	0.39	0.02	13	57	16	15⅝	16	+⅜
18¾	13	RussBerrie	0.60	0.04	13	49	16¼	15¼	15¼	-⅝
7⅛	2¼	Russ Togs	0.20	0.08	0	183	2½	2⅜	2⅜	
30⅜	19⅜	Russell Co x	0.32	0.01	22	263	28⅛	27⅞	28	-¼
21⅝	14	Ryder Syst	0.60	0.03	25	1643	18⅝	18	18¼	-⅜
25¾	13¼	Ryland Grp	0.60	0.03	36	133	22⅝	21⅝	22⅜	+⅝

- S -

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26⅞	20⅛	S Anita Rt	2.08	0.09	18	108	22⅞	22½	22¾	
16½	11½	SCOR US Cp	0.24	0.02	9	50	15⅝	15⅜	15¼	-⅛
37	20¾	SPS Techno	1.28	0.05	11	79	25¼	24¾	25	
2⅛	⅝	Saatchi&S	0.19	0.28	0	1826	[illegible]	d⅝	[illegible]	+1/16
13	11	Sabine Rlt	1.18	0.09	7	131	u13	13	13	+⅛
9⅞	5⅞	Safecard	0.15	0.02	8	354	9⅜	9⅛	9¼	
13⅝	8⅝	Safeg'd Sc			3	241	12¾	12	12⅛	-¼
37	26	SafetyKln	0.32	0.01	28	928	29⅞	29	29⅜	+⅛
21⅝	11⅞	Safeway			14	945	18⅝	18⅜	18⅝	+⅛
4⅞	2⅞	SafewayW96				103	4⅛	4	4⅛	
35⅞	26⅞	StJoePaper	0.20	0.01	36	38	33¼	32⅜	33¼	+⅞
34¼	28⅞	StJosL&P x	1.68	0.05	11	20	30⅞	30⅝	30¾	-¼
4¼	1½	Salant Crp			0	21	3¼	3⅛	3⅛	
69¾	43⅝	Sallie Mae	0.80	0.01	17	1260	59½	58⅜	59¼	+1⅛
13⅞	10⅜	Salomon Br x	0.60	0.04		515	13⅝	13⅜	13⅝	+¼
37	20¼	SalomonInc	0.64	0.02	7	2305	29¼	27¼	28⅞	+2¼
45½	37⅛	SanDgo G&E	2.80	0.07	11	398	42⅛	42⅛	42⅜	-⅛
4⅜	2¼	SantaFeEDu	0.40	0.13	20	42	3⅜	3	3⅜	
16¾	10⅛	SantaFeERs	0.16	0.01	26	887	11½	11	11⅜	+¼
35¼	25	SantaFePac x	2.80	0.09	9	365	31¼	30⅞	31	-¼
11⅞	5⅛	SantaFeStn			19	16409	11½	11⅛	11½	+¼
45¾	29⅝	Sara Lee	0.94	0.02	20	2344	43⅜	42¼	43	+¼
¼	⅛	Savin Corp			0	1650	[illegible]	d1/16	0.08	+0.02
7⅞	1⅞	Savin 0.80	0.80	0.34		43	2⅜	2⅜	2⅜	-⅛

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s
9¼	4½	TCBY Enter	0.20	0.04	12	188
21¼	7	TCF Fnanc x	0.40	0.02	10	318
8⅞	6⅞	TCW Conv S	0.84	0.10		409
48⅜	29⅞	TDK Corp A	0.38	0.01	30	7
9½	6⅝	T I S Mtge	1.32	0.15	6	189
20⅞	9⅝	TJX Cos x	0.48	0.03	15	4037
21	15⅞	TNP Enterp	1.63	0.10	9	418
46¼	34½	TRW Inc x	1.80	0.05	15	422
1½	½	TacomaBoat			0	24
25¾	18⅛	Taiwan Fd				384
8¼	3⅛	Talleyind	0.20	0.06	0	190
11⅞	6⅞	Talley Pf	1.00	0.16		64
59½	38⅝	Tambrands x	1.20	0.02	24	739
18⅞	9¼	Tandem			19	1703
36½	23⅜	Tandy Corp	0.60	0.02	10	516
12⅝	10⅞	Taurus Mun	0.83	0.07		54
39⅝	31½	Teco Energ x	1.72	0.04	15	312
30⅞	16¼	Tektronix	0.60	0.03	13	1473
1⅞	⅞	Telecom Cp			7	19
24⅞	14⅞	Teledyne x	0.80	0.04	79	755
38¼	24⅝	TeleEspSA	1.41	0.04		58282
44¼	24½	Telmex ADR				18085
61½	38½	TempleInl	0.68	0.02	16	1661
23¼	11½	TemphEmMk	0.16	0.01		162
9⅝	8⅜	TempltGlob x	0.84	0.09		149
9	7⅞	TempltGlFd	0.84	0.10		880
52	33½	Tenneco Inc x	2.80	0.07	24	6279
22½	16⅝	Teppco Pts x	2.20	0.10	18	345
16	6⅛	Teradyne			74	385
14⅜	7½	Teron	0.06	0.00	15	25
9⅜	5⅜	Tesoro Pet			18	72
70	56½	Texaco x	3.20	0.05	13	5403
93	48¾	Texaco C x	3.85	0.07		4
25	14	Texas Ind x	0.20	0.01	22	15
47⅝	27⅝	Texas Inst	0.72	0.02		8062
28	19½	Texas Pac	0.40	0.02	25	12

- X - Y - Z -

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
62⅞	35¼	Xerox x	3.00	0.05	11	2060	u62½	61½	62¼	+⅝
51½	43¼	Xerox4 125 x				z100	50⅞	50⅞	51	
25¼	14⅛	Xtra 1 94				28	24½	24	24½	
29	14¼	Xtra Corp	0.72	0.02	95	395	28¾	28½	28¾	+⅛
26⅝	21⅛	Yankee Egy	1.60	0.06	12	47	26½	26	26½	+⅜
1½	⅝	Zapata			1	271	⅝	d9/16	[illegible]	-1/16
8⅜	5¼	ZenithElec			2	673	6⅞	6⅝	6¾	
18½	12	Zenith Nat x	1.00	0.06	94	z100	16¼	16¼	16	
6⅞	4½	Zenix Inc x	0.84	0.14		137	6¼	6⅛	6⅛	-⅛
15⅛	10⅞	Zero Corp x	0.40	0.03	16	54	12¾	12⅝	12¾	
41⅞	29½	Zurn Ind x	0.88	0.02	14	121	35	34¼	34⅜	+⅛
13½	10¼	Zweig Fund	1.16	0.09		272	12⅜	12½	12¾	+¼
10½	8½	Zweig Totl	0.96	0.09		458	10⅜	10¼	10⅜	+⅛

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices October 29

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pegasus G		7	337	11⅞	11⅞	11⅝	
Perini		6	106	10	9⅞	9⅞	+¼
Per HI&P	0.31	12	z100	10¼	10¼	10½	
Phil LD	0.17	10	705	24⅜	24	24⅛	+¼
Pittway A	1.10	12	25	u29	27½	29	+1½
Ply Gem x	0.12	147	114	7½	7⅜	7⅜	-¼

NASDAQ NATIONAL MARKET

4:00 pm prices October 29

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
XIRinr		30	2780	27¾	26½	26⅞	+⅜
XL Data		30	898	10¼	9⅞	10	+¼
Xoma Corp		104	1095	21¼	19½	19½	+1½
Yellow Fr x	0.94	16	1010	30⅝	30⅛	30⅝	
York Rsch		67	1538	8½	7⅞	8⅜	
ZionsUtah	1.44	9	3	45	44½	44½	

FINANCIAL TIMES Wednesday October 30 1991

AMERICA

Equity advance continues as bond yields decline

Wall Street

THE SHARP fall in long-term bond yields lifted share prices yesterday amid rising hopes of a monetary easing by the Federal Reserve, *writes Patrick Harverson in New York.*

The Dow Jones Industrial Average finished 16.32 higher at 3,061.94, after Monday's 40.70 rebound. The more broadly based Standard & Poor's 500 added 1.96 at 391.48, while the Nasdaq composite of over-the-counter stocks climbed 5.10 to 534.51.

Volume on the New York Stock Exchange was fairly heavy at 194m shares. The Dow lost more than 15 points in the opening hour of trading as investors reacted badly to the news that the Conference Board's consumer confidence index dropped from 72.9 per cent in September to 60.4 per cent in October.

On reflection, however, the market interpreted the data in a more positive light, believing the figures would hasten an easing of Fed monetary policy. The drop in bond interest rates – the price of the long bond rose 1½ points as the yield fell back to below 8 per cent – also aided sentiment.

Salomon advanced $2¼ to $28⅝ on volume of 2.7m shares *on news that the scandal-*scarred securities house was still able to report a third-quarter profit of $85m, in spite of the $200m reserve to cover fines and legal payments that the company might face because of its illegal activities in the US Treasury markets.

Salomon's underlying earnings were again strong in the quarter, which helped other broking stocks. Merrill Lynch moved up $1¾ to $49½ and PaineWebber $¾ to $30⅞.

Time Warner forged ahead $3⅛ to $89⅞ on volume of 1.3m shares after it was announced that two large Japanese groups, Toshiba and C. Itoh, have agreed to invest $1bn in the US entertainment group via a limited partnership. Time Warner also said it was planning to buy the rest of American TV & Communications, which strengthened $3⅜ to $54⅞.

Warner-Lambert retreated $1⅛ to $74¼ after the drug group announced third-quarter net income of $1.07 a share and said it would make a $3.90 a share charge this year.

Compaq slipped another $1 to $28 on 1.2m shares traded as investors continued to react negatively to third-quarter losses and the dismissal of the computer groups co-founder and chairman.

The initial public offering of Jenny Craig, the weight-loss plan company, went well, with the shares trading at $24 on volume of 3.1m, after being *offered at $21 each.*

On the over-the-counter market, Xoma put on $1⅛ to $19¼ on volume of 4.1m shares and Centocor relinquished $2 to $48¼. Late on Monday, a federal jury upheld Xoma's patent on its E5 treatment for sepsis and found that Centocor is infringing that patent.

Somatogen jumped $6½ to $40½ after receiving Food and Drug Administration approval to initial human safety testing of its blood substitute product.

Canada

TORONTO stocks staged a good rise in heavy volume on hopes of lower interest rates in the US as the Canadian bond market led the way.

The composite index climbed 29.6 to close at 3,485.4 and advancing issues outnumbered declines by 414 to 204. Volume reached 34.8m shares, compared with the previous day's thin 19.8m. Trading value came to C$399.3m (C$199.9m).

All sub-groups were higher except pipelines, which were off slightly. Financial services gained 1.28 per cent, communications and media rose 1.23 per cent, real estate and construction was up 1.15 per cent, mining put on 1.14 per cent and gold added 1.01 per cent.

Emco gained C$⅜ to C$6⅛. It reported a C$1.5m profit in the third quarter, including a pre-tax gain of C$2.6m on the sale of assets, against a previous loss of C$6.4m.

Cinram, up C$⅜ at C$13¼, said it will sell 1.5m special warrants at C$12 each, exchangeable for an equal number of common shares.

Profit-taking chips away at Chile's gains

Leslie Crawford examines the changes that have allowed Santiago to come of age

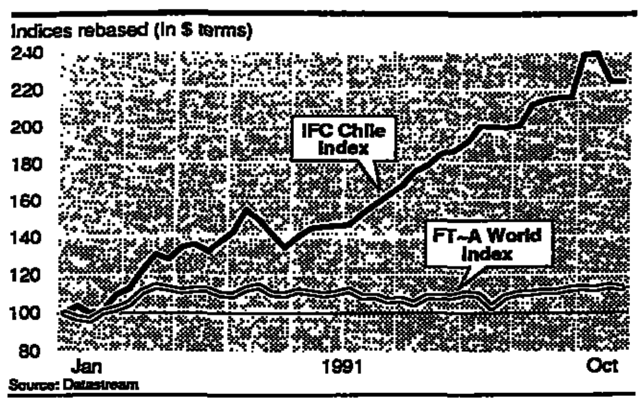
A FORTNIGHT of profit-taking has halted what had seemed to be an irresistible rise on Santiago's stock exchange this year.

More than 16 per cent has been wiped off the value of the 40 most traded shares since the IPSA index peaked on October 8. Nevertheless, even after the spate of nervous selling ended last Friday, the index was still 187.2 per cent higher than at the beginning of 1991. In dollar terms, Chile is up 124 per cent this year, according to the World Bank's International Finance Corporation arm – the second best performer this year after Argentina, which is up 395 per cent.

Chile's recent pause has been welcomed by stockbrokers, who believe that shares had become overpriced and that the market was in need of a short, sharp shock. "It was a useful correction of a speculative bubble," says Mr Mario Lobo, manager of the Salomon Bros Chile Fund.

Now all eyes are focused on the third quarter company results, which will mostly be announced tomorrow. With the Chilean economy growing at an annual rate of 5 per cent – fuelled by a consumer spending spree, a construction boom and strong exports – traders are expecting good news. This in turn would give a new shot of adrenalin to the shares of the most successful companies, allowing the stock exchange, or *bolsa*, to end the year on an upbeat note.

"The market is becoming more sophisticated," says the manager of another foreign investment fund. "Investors are beginning to look at the performance of individual companies rather than the *bolsa* as a whole." He believes that most of the cash raised in the mid-October sell-off will be channelled back into equities.



The prospects of Chilean companies, however, are not the sole explanation for the rapid rise in share values this year. Analysts believe that fundamental structural changes have allowed the *bolsa* to come of age.

Over the past year, the political and economic risk of investing in Chilean stocks has diminished. The country has completed a peaceful transition from dictatorship to democracy; it has rescheduled its foreign debt; the economy is heading for its eighth consecutive year of growth; and inflation is expected to end the year at 18 per cent, down from 27 per cent at the close of 1990.

This removal of risk is reflected in the price/earnings ratios, which climbed from 6 last year to 20 at their early October peak. At this stage, the return on equity fell below the interest rates offered on the money markets, triggering the unloading of shares.

The growth in trading volume is another indication of the *bolsa*'s emerging maturity. Daily turnover has trebled since the beginning of the year and reached a record $28m in early October.

Buoyant share prices have encouraged listed companies to raid the *bolsa* for funds, including rights issues and flotations of holdings in family-owned companies.

Many companies have swapped their bank debt for bond issues carrying lower coupons. More than $1bn worth of bonds have been placed this year by leading companies such as Copec, the petrol distribution, forestry and fishing conglomerate; CAP, the iron, steel and forestry group; CTC, the privatised telephone company; and Endesa, Chile's biggest electricity utility.

Their success is slowly coaxing more companies on to the exchange. Santiago is buzzing with seminars that teach businessmen how to obtain a listing on the *bolsa*.

Five companies are expected to start trading on the exchange in the next few weeks: Cruz Blanca, the fifth largest health and life insurance group; Envases del Pacifico, a bottling company; Parque Arauco, an upmarket shopping centre in Santiago that wants to raise $10m to expand; the San Pedro vineyard; and a real estate investment fund.

In addition, the government will sell another tranche of its shares in Zofri, the Iquique Free Trade Zone administration company. It has already sold about 15 per cent of the company and intends to reduce its holding to 51 per cent. Traders believe that the initial Zofri auction in early October was so successful that it may encourage the state holding company, Corfo, to privatise the few small companies that remain under its tutelage.

EUROPE

DAX approaches 1,600 on Daimler's strength

GERMANY TOOK its cue from Daimler-Benz yesterday, while some other bourses took theirs from third-quarter results, *writes Our Markets Staff.*

FRANKFURT approached the 1,600 level, powered by the car sector. The DAX index closed up 13.94 at 1,590.75, just off the day's high of 1,592.05 and its best close since October 4. The FAZ index, calculated at midsession, added 7.14 to 655.13 and volume rose to DM4.8bn from DM3.8bn.

Daimler more than made up for Monday's early fall on further evidence of a likely DM2bn rights issue, first aired in the early summer. The stock added DM11.50 to DM686, bolstered by remarks from its finance director that earnings would rise in 1992. Daimler's strength spread, with Volkswagen adding DM6.50 to DM341.50, BMW gaining DM4.50 to DM458.50 and Porsche rising DM5 to DM641.

RWE added DM6 to DM387.50 in spite of its 1990-91 profits coming in at the lower end of expectations. BHF-Bank downgraded its recommendation on the utility to a sell, citing the group's heavy investment programme in the former East Germany and unchanged profits in 1991-92.

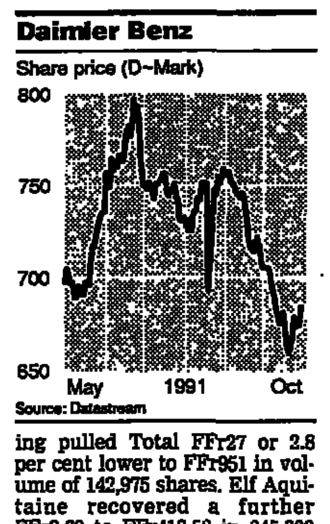
MILAN fell to an eight-month low on anxiety over the settlement of the October account. The Comit index fell 4.02 to 514.25, its lowest close since 512.2 on February 6. Turnover was estimated at between L70bn and L80bn after Monday's L76bn.

Mediobanca fell L339 or 2.5 per cent to L13,300, pulling the banking sector down 1.7 per cent. The stock was hit by the negative statements, which emerged at the annual general meeting on Monday, that the bank's interest margin in the first three months of its 1990-91 year fell L35bn or 15.4 per cent to L192bn, and that it had made losses on its stakes in Continental of Germany and Paribas of France.

PARIS ended near the bottom of the day's 14-point trading range. The CAC 40 index closed 1.43 up at 1,853.50 in quiet trading worth about FFr1.7bn, after Monday's FFr1.5bn.

Activity again focused on the oil sector, where profit-taking pulled Total FFr27 or 2.6 per cent lower to FFr951 in volume of 142,975 shares. Elf Aquitaine recovered a further FFr2.60 to FFr412.50 in 245,300 shares.

Daimler Benz



FT-SE Eurotrack 100 - Oct 29

Hourly changes

Open	10 pm	11 am	Noon	1 pm	2 pm	3 pm	Close
1103.17	1102.04	1101.65	1101.65	1101.68	1101.85	1101.15	1099.96

Day's High 1103.17 Day's Low 1099.96

Oct 28	Oct 25	Oct 24	Oct 23	Oct 22
1097.04	1091.25	1093.89	1100.82	1097.32

Base value 1000 (26/10/90)

Rhône-Poulenc certificates rose FFr16 or 3.7 per cent to a year's high of FFr454, after Monday's late news of a sharp rise in Rhône-Poulenc Rorer's third-quarter profits.

Suez slipped FFr1.80 to FFr317.30 before announcing a 33 per cent fall in first-half profits. It also said that it would buy in the minority in Comiphos; acquire another 20.3 per cent of Parthéna; and sell 30.15 per cent of Penhoët. The three investment companies were suspended on Monday.

MADRID's general index slipped 0.61 to 264.77 in turnover of about Pta14bn, up from Pta10bn.

Catalana de Gas rose Pta190 or 3.1 per cent to Pta6,300 with an unusually heavy 103,478 shares traded. One dealer said that the stock had been overlooked in the recent speculative activity in utilities triggered by the government's wish for rationalisation within the electricity sector.

Among the banks, BBV fell Pta70 to Pta2,920 after a large put-through.

STOCKHOLM was encouraged by Wall Street's overnight rise. The Affärsvärlden General index picked up 9.6 or 1 per cent to 1,005.4, as turnover grew to SKr361m from SKr247m.

Activity centred on Astra, which saw its free B shares rise SKr4 to SKr646, and Ericsson, with its free Bs up SKr2 at SKr167.

OSLO edged higher, as the all-share index rose 0.68 to 472.03 in moderate turnover of NKr350m. Hafslund free shares rose another NKr1 to NKr253 before the company's third-quarter figures today.

AMSTERDAM was quiet ahead of the third-quarter reporting season which opens today with Philips and DSM. The CBS Tendency index was steady at 90.0.

ASIA PACIFIC

Arbitrage-related buying pushes Nikkei past 25,000

Tokyo

SHARE PRICES were lifted by arbitrage-related buying yesterday, and the Nikkei average closed above the 25,000 level for the first time in six trading days, *writes Emiko Terazono in Tokyo.*

The index finished 238.89 higher at 25,140.61, after opening at the day's low of 25,000.10 and reaching a peak for the session of 25,254.50 on index-linked demand from arbitrageurs. Broadly based buying supported the market, and 31 sectors gained ground while only five sectors showed declines.

Volume rose to 400m shares from 250m, as dealers started to build up positions on the first day of trading for the November account. Foreign investors remained on the sidelines, but Mr Paul Muller at Schroder Securities said foreigners were still willing to commit funds, and were not intending to unload positions.

Gains led losses by 663 to 307, while 171 issues remained unchanged. The Topix index of all first section stocks put on 10.50 to 1,886.07 and, in London, the ISE/Nikkei 50 index added 2.34 at 1,427.72.

Traders were surprised by the strength of the Nikkei in spite of the weaker yen and the recent spate of poor earnings reports. The dollar has fluctuated around Y133, while various companies, such as brokers and electronics houses, have been reporting sharp falls in profits for the first half.

Mr Peter Johnson at Baring Securities said: "The index passing the psychological barrier of 25,000 despite the negative factors is the positive sign of underlying strength."

However, the lack of fresh news prompted activity in speculative issues. Honshu Paper, the most active stock, advanced Y69 to Y1,010 and Ishihara Sangyo Y14 to Y602.

Bargain hunting pushed up some electricals which had been depressed on poor earnings announcements. Fujitsu rallied Y19 to Y945 and Sony Y140 to Y5,300.

Hitachi Cable fell Y21 to Y975 on reports that the group expects pre-tax profits to fall for the first time in six years.

Foreign buying supported Kawasaki Kisen, the shipping line, pushing the price up Y2 to Y620. However, Navix Line, which has been rising on the popularity of the shipping sector, retreated Y8 to Y570 on profit-taking.

In Osaka, the OSE average closed 72.66 ahead at 27,271.69 on volume of 23m shares.

The market gained ground on small-lot buying of small capital issues. Mori Seiki, the machine tool maker, appreciated Y90 to Y2,530 on bargain hunting. The stock had been weak on reports that the company's pre-tax profits will fall 30 per cent in the current year owing to lower demand for its numerically controlled lathes.

Roundup

STRENGTH ON Wall Street and in Tokyo encouraged buying in the Pacific Rim.

AUSTRALIA achieved a 20-month high on hopes of a cut in interest rates, fanned by expectations of a fall in inflation in the September quarter. The All Ordinaries index climbed 8.9 to 1,651.7, although turnover remained light, totalling A$184m (A$167m).

TNT, the transport group, gained another 8 cents to A$1.37 after the company announced a first-quarter net loss in line with expectations. News that it was passing the dividend had been anticipated.

News Corp, which is also listed in New York, gained 40 cents to A$13.54.

NEW ZEALAND advanced on foreign buying after the three-day weekend. The NZSE-40 index rose 23.92 or 1.6 per cent to 1,535.78, a four-month high, in heavy trading worth NZ$32.5m (NZ$17.3m).

Carter Holt Harvey moved forward 11 cents to NZ$2.07 and Fletcher Challenge, which said – as expected – that it would exercise a put option forcing the government to buy NZ$400m of new shares, added 8 cents at NZ$3.56.

HONG KONG finished below the day's high after cautious trading. The Hang Seng index rose 11.45 to 4,000.05 as turnover grew to HK$1.01bn from HK$968m. SINGAPORE's early gains were also trimmed as profit-taking left the Straits Times Industrial index up only 3.20 at 1,405.76.

TAIWAN suffered a minor correction after its recent strength. The weighted index slipped 17.24 to 4,364.45 in light turnover of T$18bn, down from T$20.5bn. SEOUL inched higher after two days of losses. The composite index rose 1.36 to 694.45 in turnover of Won310bn, up from Won295bn.

BOMBAY jumped 4.9 per cent after lower carry-forward charges were fixed for the business done in the two weeks to last Saturday. The BSE index rose 87.64 to 1,883.16.

SOUTH AFRICA

JOHANNESBURG industrials rallied, but golds fell as the bullion price eased. The all-share index ended 11 higher at 3,471, as an 11-point fall in the all-gold index to 1,176 was offset by a 34-point jump in the industrial index to 4,195.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY OCTOBER 29 1991								MONDAY OCTOBER 28 1991					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1991 High	1991 Low	Year ago (approx)
Australia (69)	156.90	+0.8	135.05	129.68	137.90	132.59	+0.5	4.60	155.62	135.44	129.99	138.27	131.92	158.25	112.74	123.14
Austria (20)	156.70	+0.1	134.88	129.52	137.73	138.51	−0.4	2.06	156.57	136.27	130.79	139.11	139.00	222.37	154.82	200.77
Belgium (47)	129.61	+1.0	111.56	107.12	113.91	111.23	+0.0	5.33	128.34	111.70	107.20	114.03	111.25	151.20	118.04	137.21
Canada (114)	140.84	+1.0	121.22	116.39	123.77	114.52	+0.8	3.26	139.48	121.39	116.51	123.92	113.62	142.27	126.49	123.16
Denmark (37)	253.79	+1.0	218.45	209.76	223.06	227.13	+0.4	1.56	251.24	218.66	209.88	223.23	226.30	270.56	217.74	255.11
Finland (15)	*84.13*	*−1.1*	*72.41*	*69.53*	*73.94*	*73.42*	*−0.8*	*3.32*	*85.04*	*74.01*	*71.04*	*75.56*	*74.02*	*125.15*	*83.69*	*101.08*
France (109)	140.26	+1.2	120.72	115.91	123.26	126.94	+0.1	3.50	138.64	120.66	115.80	123.17	126.84	152.26	119.11	137.68
Germany (65)	107.09	+2.3	92.18	88.52	94.12	94.12	+1.2	2.40	104.70	91.13	87.47	93.03	93.03	125.35	94.15	114.20
Hong Kong (55)	164.21	+0.1	141.34	135.72	144.33	163.88	+0.2	4.44	164.11	142.83	137.09	145.82	163.62	169.98	119.62	122.83
Ireland (18)	158.13	+1.6	136.10	130.69	138.98	140.71	+0.7	3.56	155.30	135.16	129.73	137.98	139.74	182.46	132.88	158.52
Italy (77)	68.13	+0.3	58.64	56.30	59.87	64.32	−0.7	3.60	67.96	59.14	56.76	60.38	64.78	88.23	64.76	85.47
Japan (474)	142.36	+1.6	122.53	117.65	125.13	117.65	+0.6	0.72	140.06	121.90	117.00	124.46	117.00	146.97	118.23	137.43
Malaysia (68)	202.87	−0.3	174.61	167.66	178.29	215.33	−0.2	2.87	203.40	177.02	169.90	180.72	215.78	247.78	189.18	205.26
Mexico (16)	1312.06	−1.3	1129.31	1084.41	1153.15	4305.04	−1.6	1.22	1329.17	1156.80	1110.31	1180.96	4375.72	1336.04	534.45	550.53
Netherland (31)	140.87	+1.2	121.25	116.43	123.81	122.42	+0.1	4.40	139.20	121.15	116.28	123.68	122.30	145.73	125.70	132.84
New Zealand (14)	48.76	+2.3	41.97	40.31	42.86	46.62	+2.2	8.23	47.68	41.50	39.83	42.37	45.61	54.64	41.18	51.20
Norway (30)	188.91	+0.9	162.60	156.14	166.04	170.07	−0.1	1.52	187.18	162.91	156.36	166.32	170.16	223.24	178.58	236.39
Singapore (38)	198.13	+0.7	170.53	163.75	174.13	155.03	+0.5	2.23	196.84	171.32	164.43	174.89	154.26	208.25	151.63	164.52
South Africa (61)	258.03	+0.6	222.09	213.25	226.77	174.89	+0.3	2.79	256.37	223.13	214.16	227.76	174.30	258.85	173.00	162.88
Spain (53)	152.52	+0.6	131.28	126.06	134.05	122.94	−0.3	4.46	151.67	132.00	126.70	134.76	123.35	171.12	131.51	146.71
Sweden (25)	184.35	+1.8	158.67	152.37	162.03	168.04	+0.7	2.65	181.06	157.58	151.25	160.87	166.85	204.12	146.60	172.55
Switzerland (59)	94.76	+1.4	81.56	78.32	83.29	86.80	+0.0	2.22	93.44	81.32	78.06	83.03	86.80	100.67	82.17	90.10
United Kingdom (240)	176.49	+1.0	151.90	145.85	155.10	151.90	−0.1	4.87	174.75	152.09	145.96	155.25	152.09	187.44	156.27	158.81
USA (526)	159.01	+0.5	136.87	131.43	139.76	159.01	+0.5	3.04	158.18	137.66	132.14	140.55	158.18	161.02	125.95	122.43
Europe (826)	138.81	+1.2	119.47	114.72	122.00	121.33	+0.1	3.95	137.19	119.40	114.60	121.90	121.23	151.52	125.50	134.88
Nordic (107)	182.24	+1.3	156.86	150.62	160.17	158.30	+0.4	2.04	179.96	156.62	150.32	159.89	157.63	200.81	155.55	183.56
Pacific Basin (718)	142.79	+1.5	122.91	118.02	125.50	119.03	+0.5	1.05	140.64	122.40	117.49	124.96	118.39	145.92	117.86	136.09
Euro—Pacific (1544)	141.56	+1.4	121.84	116.99	124.40	120.80	+0.4	2.18	139.61	121.51	116.61	124.04	120.36	147.66	121.29	135.96
North America (640)	157.81	+0.6	135.83	130.44	138.72	156.00	+0.5	3.05	156.94	136.59	131.11	139.47	155.16	159.66	125.91	122.39
Europe Ex. UK (586)	116.46	+1.3	100.24	96.27	102.38	103.79	+0.2	3.25	114.94	100.04	96.03	102.15	103.53	129.80	103.58	119.71
Pacific Ex. Japan (244)	147.03	+0.5	126.55	121.53	129.23	130.51	+0.4	4.23	146.28	127.31	122.21	129.99	130.00	147.60	111.40	119.59
World Ex. US (1735)	143.48	+1.3	123.50	118.59	126.11	122.16	+0.4	2.22	141.58	123.22	118.27	125.80	121.72	148.16	122.32	136.03
World Ex. UK (2021)	144.89	+1.1	124.71	119.75	127.35	131.88	+0.5	2.26	143.37	124.78	119.77	127.40	131.24	145.77	120.06	127.50
World Ex. So. Af. (2200)	*146.92*	*+1.1*	*126.46*	*121.44*	*129.14*	*133.44*	*+0.4*	2.52	145.39	126.53	121.46	129.19	132.87	*148.66*	*122.92*	130.08
World Ex. Japan (1787)	151.87	+0.8	130.72	125.53	133.50	142.49	+0.4	3.41	150.73	131.18	125.92	133.95	141.98	152.85	126.69	127.85
The World Index (2261)	147.65	+1.0	127.09	122.04	129.78	133.79	+0.4	2.52	146.12	127.17	122.06	129.84	133.23	149.01	123.28	130.28

Constituent change 29/10/91: Name change: Singer Holdings to Berjaya Singer (Malaysia).

FINANCIAL TIMES SURVEY

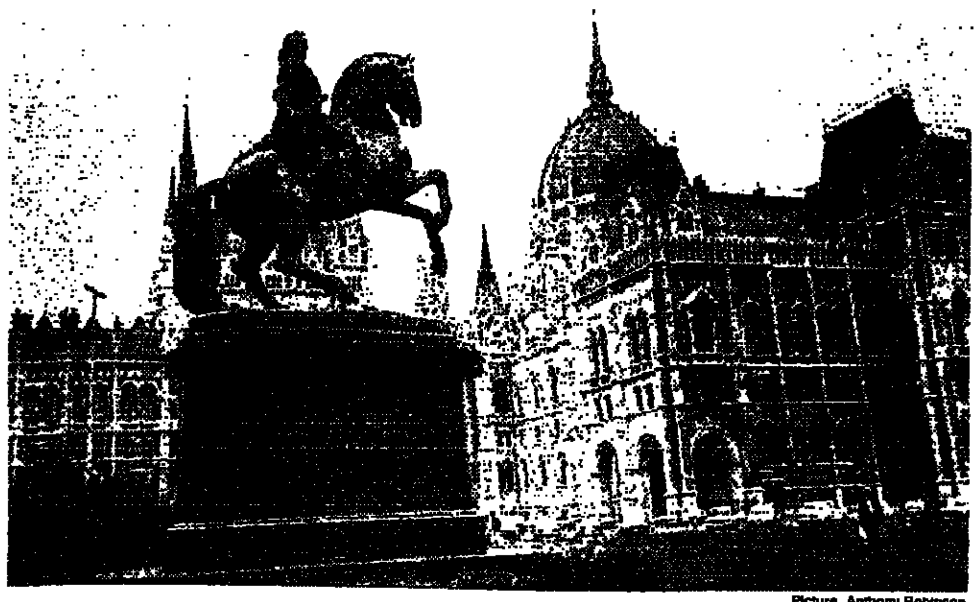
■ Economic progress is ahead of schedule: see page 3

HUNGARY

■ Foreign debt: central bankers are more relaxed now: see page 4

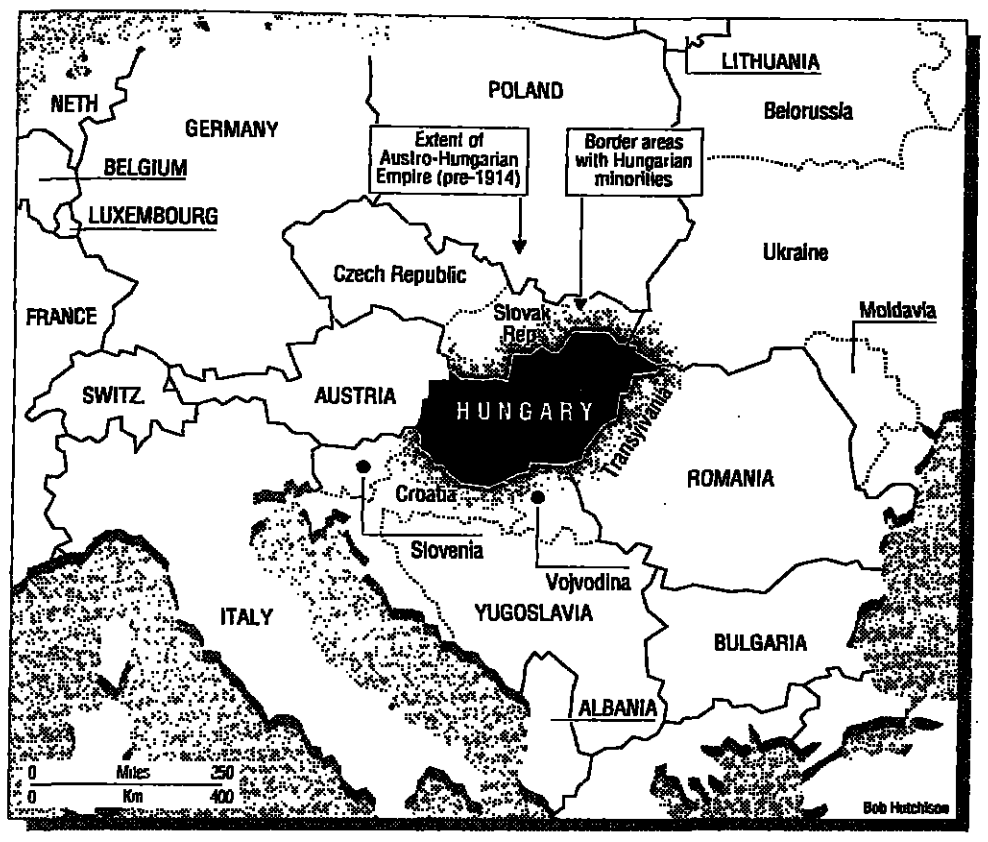
SECTION III

Wednesday, October 30, 1991



Picture. Anthony Robinson

■ The neo-Gothic splendour of the parliament building in Budapest, above, is now the forum for Hungary's multi-party democracy. The end of the Habsburg Empire left millions of ethnic Hungarians outside the new state. Many now live in neighbouring countries embroiled in civil war – such as Yugoslavia – or rising nationalist fervour, like Slovakia and Romania. Hungarians now ask whether their stability can calm the region or whether regional instability will undermine their achievements.



Hungary has been paving the way for economic reform since the 1970s. Democracy and a determined policy of re-integration into the wider world has speeded the process. Now the breakthrough to sustained growth is at hand, writes **Anthony Robinson**

The signs are encouraging

HUNGARY did well as a junior partner in the Austro-Hungarian empire and has also emerged from Soviet imperialism in better shape than most. With average luck, this land-locked country of talented, flexible people should be the first central European country to be re-born next year as an economically restructured post-communist democracy.

It will not be plain sailing. Another 12 to 15 hard months lie ahead for the smallest of the three central European states – the others are Czechoslovakia and Poland – due to become associate members of the European Community next year. But the economy should shift from contraction to growth next year and be ready for sustained takeoff during 1993.

In the meantime, layoffs are looming in dozens of state-owned enterprises. The trigger for widespread bankruptcies should be new banking and accountancy laws expected to come into effect early in the new year.

They will create an independent central bank, closely modelled on the German Bundesbank, and finally permit enterprises and commercial banks to write off up to 150bn forints of bad debts.

These are currently cluttering company balance sheets and priming inflation as technically bankrupt companies keep afloat by extending unbacked loans to each other.

The three-party conservative government headed by prime minister Jozsef Antall, leader of the Hungarian Democratic Forum, has to cope with major social and economic changes in the countryside as well as the towns.

The Smallholders Party, a junior coalition partner alongside the Christian Democrats, has insisted on a limited restitution of land seized by the communists.

But the attempt to re-create a small landed peasantry and restructure the large scale co-operative farms has co-incided with record crops and collapse of the Soviet market for grain, meat, wine, fruit and vegetables.

The strains of coping with the transition to a multi-party democracy and market economy are clearly etched on the faces of politicians, senior civil servants, bankers and advisers after two frantic years grappling to bring economic, financial and social legislation into line with EC norms and pressing ahead with privatisation on a large scale.

Life has also been hard for ordinary people whose incomes have been eroded by inflation and the ending of consumer subsidies. Many are struggling to survive by moonlighting and are acutely aware of increasing social and economic differentiation. A new class of successful local entrepreneurs and accountants has emerged to flaunt their western cars, their villas and fashionably baggy Italian suits and turned back cuffs.

Hungary earned the right to undertake its own cautious search for a more market orientated and less repressive system the hard way – by fighting Soviet power in the streets of Budapest and other cities in 1956. It has been experimenting with market-style reforms for over 20 years and the experience is now proving invaluable.

The last Soviet soldier left in June, leaving behind a legacy of environmental degradation and a sense of enormous relief. For the young and better educated Hungarians in particular re-integration into western Europe opens up previously unexpected vistas and the re-establishment of historic ties.

Prosperous Germany and Austria are Hungary's main markets and joint venture partners. The US, thanks to a few big investments by multinationals like Ford, General Electric and General Motors is the main source of capital. But the end of the old bloc system has also permitted rebuilding links with the Latin and Slav members of the former Hapsburg Empire through the so-called "sextagonal" group which now includes Poland.

Longer-term, Hungary, with its good connections throughout eastern Europe and the Soviet republics, should also be able to forge profitable relations with eastern neighbours like the Ukraine, Russia and even more distant republics like Georgia down the Danube and across the Black Sea.

For the immediate future, however, the instability and ethnic tensions in neighbouring states are a source of deep concern. With sizeable Hungarian minorities in the Serbian province of Vojvodina as well as Croatia, Budapest is anxiously monitoring events in a disintegrating Yugoslavia.

To the north, re-awakened Slovak nationalism has also provoked nervousness over the fate of the Hungarian minority in a region once dominated by Hungarians. Similar fears concern the future of the Hungarian minority in Transylvania given the political instability and economic problems which sparked off the recent miners protests in Romania.

Despite these potential clouds on the horizon, the country has thus far remained a peninsular of political and economic stability. The gilded neo-Gothic parliament on the banks of the Danube forms an arena for open political debate between the government coalition and three opposition parties. The sharp decline in production by the old state-owned monoliths has been counter-balanced by the rapid growth of small private business and foreign investment.

Officially, GDP is expected to decline between 6 and 8 per cent this year with a 16.3 per cent drop in industrial output over the first eight months. But real GDP will probably turn out only 2 to 3 per cent lower than 1990 thanks to higher output from the private sector.

Over the last 18 months more than 40,000 small private companies with a capital of over 500,000 florints have been established. Inflation peaked at nearly 39 per cent in June and could be down to around 20 per cent next year when the economy should grow by a modest 1-2 per cent.

Foreign private investors have given their own vote of confidence by investing around $800m over the first nine months, more than half of total private investment in the entire region. The National Bank, the central bank, expects the inflow to comfortably exceed $1bn by the end of the year.

The influx of foreign capital has dramatically changed the nature of Hungary's foreign debt burden. Five years ago 69 per cent of Hungary's hard currency income was needed to service its $20bn foreign debt.

This year the proportion will be around 38 per cent thanks to a combination of equity capital inflows, higher tourist and other service receipts and higher hard currency exports, despite an overall volume fall in exports, due to the collapse of rouble trade.

Import liberalisation has allowed Hungarian companies to import high quality western goods without delay.

In turn, this has helped to raise the quality and competitiveness of Hungarian exports.

Some of the new investment is on greenfield sites, like Suzuki's $250m car assembly plant at Esztergom north of Budapest. But most is closely linked to the privatisation of state enterprises through direct sales, joint ventures and the State Property Agency (SPA) set up to formalise the process.

Although the SPA is legally bound to seek the best possible terms for privatisation these are judged primarily by the value of the management skills and technology transferred and the degree of integration into global markets offered by the new foreign owner or joint venture partner.

It is all part of a determined policy of re-integration into Europe and the wider world which appears close to the point of paying off.

IN THIS SURVEY

Editorial production: Michael Willshire. Graphics: Bob Hutchison

HUNGARY 2

'Blink — and you might miss one'

Invisible leaders

ONE of the curiosities about Hungary is the invisibility of its leaders.

The phenomenon was most evident after the summit which Mr Antall hosted earlier this year for his Czech and Polish counterparts.

"Walesa and Havel in Budapest," ran the caption to a photograph in *Newsweek*.

No problem – except that Mr Antall was standing right beside them in the picture itself, unnamed. At least the magazine did not add to the insult by adding to the photo description, in brackets, a reference to an unidentified security guard.

It is not very fair. Mr Antall towers over Hungarian political life and he has arguably kept his country in better shape than his rivals to the north.

What the former librarian lacks, and he cannot help this now, is the charisma that came with open confrontation to the communistsith a spell under arrest.

It is harder to explain why Hungary has no economic minister of the prominence of Czechoslovakia's Vaclav Klaus or Poland's Leszek Balcerowicz. One reason is that Mr Antall is little like one of those trees in whose shadow nothing grows. An adept politician, he plays ministers off against each other and makes sure none get too big for their boots – or big enough for his own.

An aide says, for instance, that he keeps Mr Bela Kadar, the minister of international economic relations and an intellectual bruiser, in the cabinet to keep an eye on the dominant liberals. And when Mr Mihaly Kupa, the finance minister and economic supremo, gets ambitions above his station, Mr Antall speaks of his economic *ministers* – plural – to put him back in his place, according to observers.

Mr Antall is helped in his balancing act by the fact that Hungary seems to have economists as Australia has sheep – they outnumber the human population. From this broad selection, the prime minister has packed a remarkable diversity of economic views and rivalries into his team. And they roughly cancel each other out.

Broadly, Mr Kupa and Mr Gyorgy Suranyi, the chairman of the central bank, are the radicals. Their macroeconomic policy is too tight, think Mr Peter Bod, the industry minister, and Mr Kadar. So far, so simple.

But the fault-lines run in every direction because nobody much agrees with anybody. Mr Kupa doesn't want to give Mr Suranyi's central bank too much independence. And while Mr Bod argues for selective protection, Mr Kadar calls for export promotion and rails against the "new protectionists."

There is another reason why Hungarian finance ministers do not register on the retina. Blink and you might miss one. In the last decade, finance ministers have been changed annually, on average.

The one before Mr Kupa lasted all of three months. Whispering in the prime minister's circle has already begun about his successor.

The final reason why Hungary's leaders are invisible, and this may be the clincher, is that maybe they do not matter so much. Hungary's reforms have a momentum and a reasonably effective administration to keep them on their way.

One senior banker says: "It is a good question how on earth the economy could function so well when the government is so little in evidence." His answer: "The people – they do not expect anything of the government and know they should take the future in their own hands."

But Mr Antall can console himself with the thought that the leaders of Switzerland, not a bad model, are invisible too.

Nicholas Denton

The road to stable democracy

Managing to avoid many pitfalls

HUNGARIANS voted for democracy in last year's free elections and that is what they have got. Democracy, with all its messy compromises, sluggishness and petty rows; and an uninspiring conservative government whose main aim – in the best of democratic traditions – has been to "muddle through."

That is ambitious enough in post-communist eastern Europe, even if it is a dull *denoument* to the drama of revolution.

Mr Jozsef Antall's government of amateur politicians has so far navigated successfully past many of the pitfalls that lie along eastern Europe's path to stable democracy. The achievement is only partly diminished by the advantages with which Hungary started. The country's gentle economic and political transition under its last reformist communist government has helped. So has ethnic homogeneity.

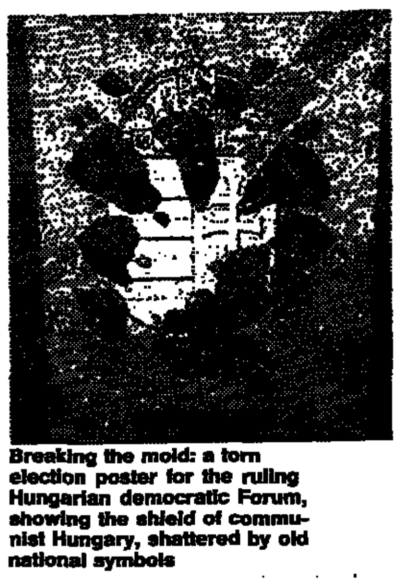
The greatest surprise to many it that, despite continuous tensions and against most expectations, the governing conservative coalition of the Hungarian Democratic Forum, the Smallholders and the Christian Democrats has stuck together.

The Smallholders, a fractious agrarian party which holds the balance of power in parliament, repeatedly threatened to leave the government unless land confiscated by the communists was returned to former owners. But the issue has been successfully defused.

Mr Antall, after months of bitter and exhausting dispute, engineered a compromise whose complexity reflected all the pressures he was under. It gave former smallholders more generous compensation than others whose property had been confiscated; it satisfied the constitutional court's demand that the solution be fair to all; and it minimised the risks that restitution of property would pose to the privatisation process.

"No compensation would be best in the economic sense," admitted one adviser to the prime minister. But he defended it as an astute political decision. "Do you think there will be stability when the peasants block the streets with their tractors?"

Prime minister Antall: astute



Breaking the mold: a torn election poster for the ruling Hungarian democratic Forum, showing the shield of communist Hungary, shattered by old national symbols

The consensus now seems to be building that the coalition is safe.

"I think that this government will survive; with this muddling through it will survive," says Mr Karoly Attila Soos, economic spokesman of the opposition Free Democrats.

One great thing is in Mr Antall's favour. Under Hungary's constitution, it is very difficult to force a government to resign. The opposition needs to propose an alternative government and win a "constructive" vote of no confidence.

So even if all the Smallholders defected, which is unlikely for such a fractious party, he could probably govern with a minority, relying on divisions within the opposition.

In any case, the opposition is in no position to take over at the moment. The Free Democrats, the largest opposition party, are in turmoil over a leadership challenge. Even when resolved, the election is likely to leave lasting scars.

Their allies in the liberal bloc, the Young Democrats, are in better shape, leading in the opinion polls; but with 22 MPs they are too weak in parliament to take up the burden. And the third opposition party, the Socialists, are still too tarnished by their communist past to be thought of as coalition partners.

Confidence in the stability of the government presupposes the fact that all the parties stick together. There is, however, a view that the Hungarian party system is fundamentally unstable, that parties contain such a breadth of views that a re-alignment is inevitable.

Indeed Mr Imre Pozsgay, a leading communist reformer, hoped to capitalise on this possibility by launching a national centrist movement that would span the major parties. But the organisation has sunk without trace.

The government worries more about parliamentary obstruction than revolt. Ministers complain that there is a queue of essential reform bills awaiting parliamentary approval.

But it is not only parliament which limits the government's room for manoeuvre. Democracy has also brought a constitutional court and central bank jealously protective of their independence, and local governments and indeed a presidency in the hands of the opposition.

All, on occasion, frustrate the central government's will. But at least one of the prime minister's aides remains stoical – "we pay the price of democracy every day," he says in response to impatience with the speed of reforms. "We pay the price of the legal state. We pay the price of the constitutional court."

High politics may, however, be the least of the government's worries. There are many Hungarians whose economic discontent is not mediated by any of the parties, or indeed any other organisation, and could find explosive release.

The warning came a year ago when an increase in petrol prices led taxi and truck drivers to blockade the roads, in a wildcat action which paralysed Hungary for three days. That episode, during which the government looked shaky, etched itself onto ministers' minds.

Discontent has, if anything, increased as the recession has deepened. Polls have shown Hungarians to be the most pessimistic of any nation in eastern Europe and the least trusting in their government. But, remarkably, there has been almost no further unrest.

That owes something to the govern-

Continued on facing page, column 1

Profile: Viktor Orban

'Prime minister in waiting'

HUNGARY'S young prime minister-in-waiting has an impressive record. A founder of the first political organisation to oppose Hungary's former communist regime, he is now one of the most professional democratic politicians in Hungary. Some would say the most statesmanlike. And he has taken his party, which he dominates, to a clear lead in the opinion polls.

Not surprising, it might seem then, that his name comes up again and again as a future prime minister, if not at the next election, then sometime. Unsurprising, that is, until one learns that Viktor Orban, leader of the Federation of Young Democrats, one of the two parties that make up Hungary's liberal opposition, is 28 and not long out of law school.

"Every day we are preparing for this job – to govern," says Mr Orban, as he sits in his office in the brutal block that once housed the communist party central committee. He lacks the diffidence of others in the opposition towards power. "The ultimate aim of politics is to govern, of course," he says unapologetically.

He concedes that the opinion poll ratings showing the Young Democrats on 35 per cent overstate the party's true support. Sympathy does not always translate into votes. The figure means, he says, about 20 per cent in the case of a real election now. But he vows: "It will be better."

"We have begun to convince people that it is not unnatural to think of Fidesz as a governing party or of Fidesz leaders as ministers," he says of the prejudice against the party's youth. "The forthcoming two and half years will be enough," he concludes confidently, eyes set on the next election in 1994.

In fact, he always appears self-assured. He answers every question, deftly and directly, the words coming out fast as if his mind was running ahead of them. Voters will need little convincing of his intellectual maturity and preparedness for office. It is Mr Orban's appearance they will have to come to terms with. For he has the unruly hair, the compact physique and the coiled posture of a nimble footballer.

Orban: "political manager"

But the Young Democrats have successfully challenged preconceptions before. When they dared set up Hungary's first non-communist political organisation in early 1988, people thought it could not be done.

Again, when Hungary rehabilitated and reburied Imre Nagy, the prime minister during the anti-communist uprising in 1956, it was Viktor Orban who broke greatest taboo by calling publicly for the withdrawal of Soviet troops, at the same time making his reputation as an orator.

"What kind of speech can you deliver under communism unless a radical one?" he asks, referring to the attacks on him for being wild. Perhaps it needed a naive child to shout out that the emperor had no clothes.

The Young Democrats' campaign for the free parliamentary elections of 1990 was in typically rude style. A picture of Brezhnev and Honecker locked in a comradely kiss above a Young Democrat boy and girl in a similar embrace; the caption: go ahead and choose. Even after 22 Young Democrat MPs entered parliament, they stayed iconoclasts. On the first day of the new parliament, an orange, the party symbol, sat on every MP's desk, including those of the former communists who now occupied the neighbouring seats on the opposition benches.

It is a miracle that the Young Democrats got as far as parliament. All over eastern Europe, it was the students who crowded the squares to give the unmistakeable message to the communists that their time was up. And all over the region they then retreated to the classrooms as older opposition leaders took over – except in Hungary.

But the Young Democrats are fighting against time. Voters supported them because they had a clean past, unlike others in the opposition. To be more precise, they had no past. Innocence, however, is a rapidly eroding asset – "we have already lost our purity because we are involved, but in this regime, not the last," admits Mr Orban.

The party still benefits from the broad discontent with politicians. Voters still think they are unlike the rest. Their frank style is a distinct advantage in this. "People are not able to understand what politicians are speaking about," Mr Orban says.

Indeed, Young Democrats' rivals in opposition often talk like 1960s sociologists and the prime minister in the convoluted style of a 19th century statesman. "Fidesz has a totally different language, more brutal and intelligible," says Mr Orban.

But for the next election, due in 1994, they need more than that – "we have to be young and serious at the same time; it's very hard work," says Mr Orban.

They are part of the way there. Mr Orban, who titles himself a "political manager" and who others describe as a "dictator," boasts the Young Democrats are the best-organised party, although that is not difficult. There is particular pride in the team of 50 expert policy advisers who make the party's MPs among the best-briefed in parliament.

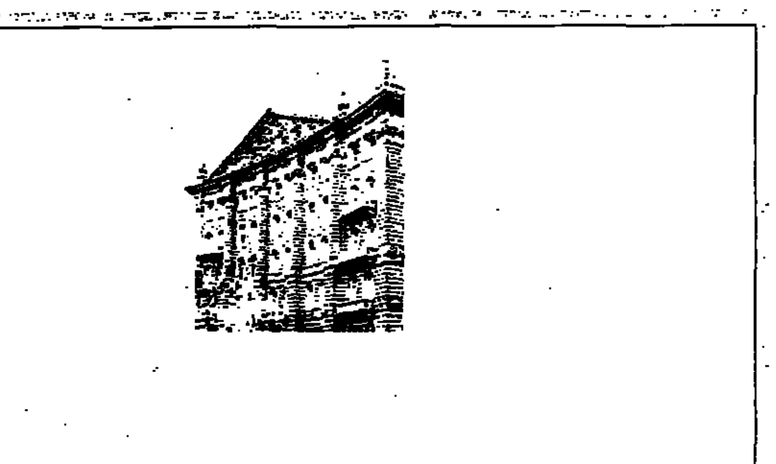
"Rational" argument, in which the Young Democrats take pride, may win the intellectual debate and prove the party's seriousness.

Mr Orban, who studied the political philosophy of liberalism at Oxford in 1989, is convinced that the tide is running his way – "I'm convinced that the forthcoming decade will be the decade of the liberals in this region," he says.

"Hungarian society is in transformation. In ten years it will be no different to a west European society. I'm thinking in the long-term."

Mr Orban has to hope that time on his side.

Nicholas Denton



HUNGARY 3

KEY FACTS

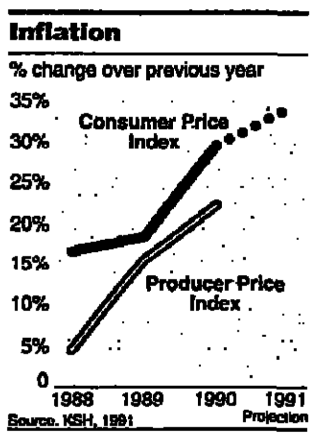
Area	93,033 sq km
Population	10.55 million
Head of State	Arpad Goncz
Currency	Forint (Ft)
Average exchange rate	1989, $1=59.07; 1990, $1=63.21

ECONOMIC INDICATORS

	1989	1990
Total GDP (Ft bn)	1,706	2,079
Real GDP growth[1]	-0.2	-5.0
Consumer prices[1]	17.0	28.2
Ind. wage rates[1]	17.0	19.8
Ind. production[1]	-3.4	-8.5
Employment growth[1]	-4.0	-8.8
Narrow Money growth[1]	17.6	26.5
Broad Money growth[1]	15.3	29.2
Discount rate (% p.a., yr-end)	14.0	20.0
Gross debt ($bn)	20.6	21.3
Foreign currency res.($bn)	1.2	1.2
Net debt ($bn)	19.4	20.1
Current account ($bn)[2]	-1.4	0.1
Exports ($bn)[2]	6.4	6.3
Imports ($bn)[2]	5.9	6.0
Trade balance ($bn)[2]	0.5	0.3
Main trading partners:[3]	Exports	Imports
USSR	18.0	20.0
Germany	20.0	18.0
Austria	6.5	9.0
CMEA	29.0	32.0
European Community	35.0	39.0

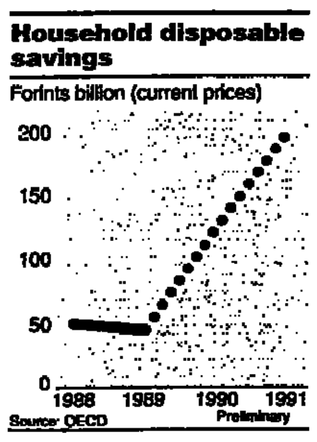
Notes: (1) Percentage growth over previous year.
(2) Converlble Currency only.
(3) Percentage share of trade in 1990.
Sources: IMF, UN, Datastream, Economist Intelligence Unit.

Inflation



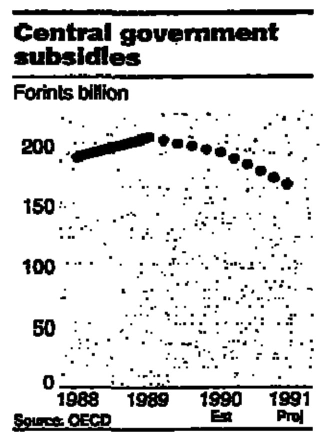
Source. KSH, 1991 Projection

Household disposable savings

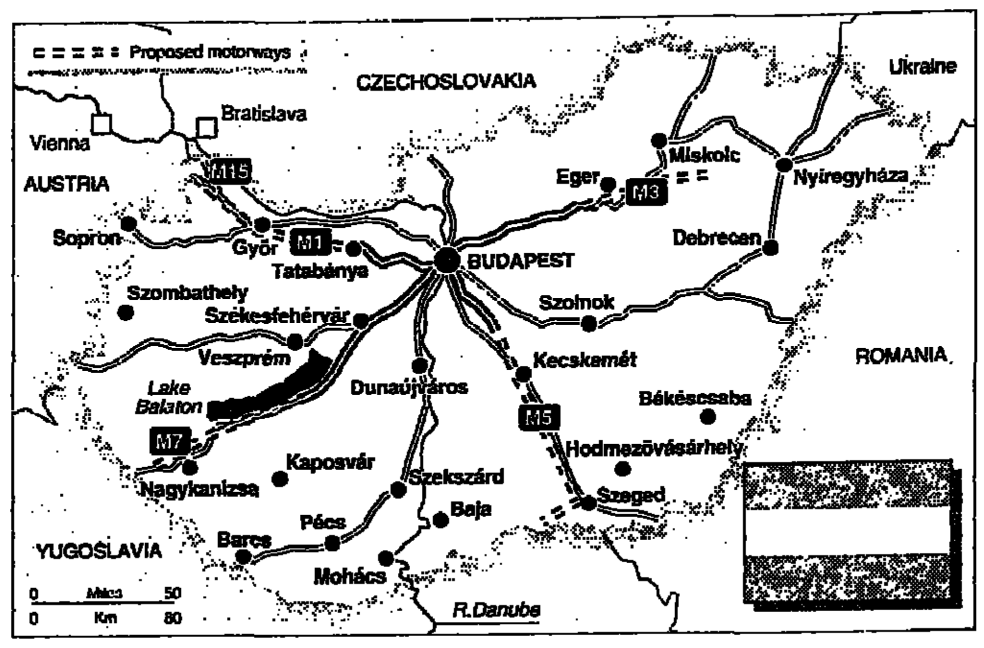


Source: OECD Preliminary

Central government subsidies



Source: OECD Est Proj



Political decisions

Continued from previous page

ment's overriding concern for stability and willingness to compromise. The government has cushioned the worst of the suffering without going overboard on budget spending. Sympathy is cheap.

"This government is determined to take rational measures but we suffer because it is unjust," says Mr Peter Bod, the industry minister.

He takes much credit for social peace with his ceaseless, soothing visits to closing mines and factories. There is not long to go, says Mr Bela Kadar – "we just need to muddle through the next eight months. By next autumn we will already be within tangible distance of recovery." But Mr Soos is less sanguine. He argues that the government is just postponing problems and that hard and decisive measures are needed to provide the basis for recovery – "there would be much protest," he says, "but there would be less cynicism about the future."

The government must be aware of the fine line between stability and immobility, say its critics. "In this economic situation, the greatest danger is of hesitation," says Mr Peter Medgyessy, deputy prime minister in the last reformist communist government.

"I have the impression that the government hesitates because it does not want to lose popularity."

He calls on the government to face up to the fact that large and insolvent state companies cannot survive and must be liquidated for the health of the economy. The criticism that the government shrinks from unpopular decisions applies most strongly to the crucial question of budget reform – the task of removing the crippling burden of a bloated state and confiscatory taxation from the economy.

An official from an international financial organisation complains that radical finance ministry proposals have been "whittled away, bit by bit" over the course of the year until very little remains because ministers are too sensitive to protest.

Nicholas Denton

ECONOMIC PROGRESS

Ahead of schedule

HUNGARIAN economic policy can be summed up in two widely used phrases, macro-stabilisation, the immediate task of curbing inflation and creating monetary and fiscal balance, and structural reform. The latter will take longer but its ultimate success depends heavily on the former.

Hungary's achievement in 1991 is to have moved ahead of schedule on its first target. A tight budgetary and monetary stance has contained the fallout from import and price liberalisation. Inflation is falling, the balance of payments and the exchange rate have all strengthened. The economy has performed far more effectively than could have been expected a year ago.

"We are doing fine," says Mr Imre Tarafas, deputy president of the National Bank of Hungary. But he admits: "The central bank is the only place in the country where you can hear such triumphalist comments. The farther away you go, things get less pleasant. That is as much part of reality as my sunny view."

For the cost has been heavier than many imagined – if not as great as the official figures say. The overall picture is mixed. The big state-owned enterprises and farm co-operatives – which still make up the biggest part of the economy are suffering from a severe recession. By contrast, private business is flourishing, foreign investment in flowing strongly and exports to the West are performing better than expected.

The central bank's policy of maintaining positive real interest rates has instilled financial discipline, encouraged saving and successfully restrained domestic demand. Enterprises, paying 37 per cent interest on loans and facing a growing threat of bankruptcy, have powerful incentives to insist on prompt payment of bills.

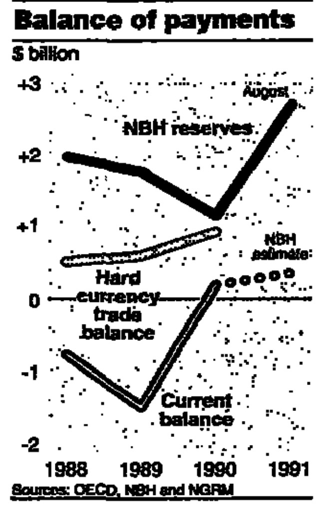
Mr Gabor Renyi, chief executive of Novotrade, one of Hungary's largest private companies, illustrates the changing attitude: "We now sue everybody. We have 200 files at court. I'm not giving anybody anything without proper security now. I'd rather lose the business than lose the money."

Mr Renyi says he feels others are behaving in the same way towards him.

The new discipline has placed a limit on "queuing". This is the name given to the build-up of bad debts between enterprises, particularly state owned enterprises who have managed to survive tightening bank credit by simply not paying their bills. Such bad debts now total around Ft150bn of which Ft20bn to 25bn is owed directly to the banks. The total of bad debts which will have to be written off when the new banking and accountancy laws come into force next year is equivalent to around 15 per cent of broad money. This is a main source of continuing inflationary pressures.

High interest rates have also resulted in a revolutionary change in the level of household savings. Net savings are four times the level of two years ago, and now represent more than 10 per cent of earnings, according to the central bank. That has made it easier to finance the higher than expected budget deficit in a non-inflationary way.

Balance of payments



Sources: OECD, NBH and NGRM

The authorities recently tightened monetary policy again by increasing banks' minimum reserves and obliging them to buy more state bonds. The aim was to close the gap between broad money growth, running at 26 per cent, and nominal GDP, which is increasing at 22-23 per cent.

Fiscal policy is not quite so tight. The budget has gone from rough equilibrium in 1990 to a deficit of Ft89bn in the first eight months of 1991. That is already well beyond the target of Ft78bn set by the International Monetary Fund for the whole year. But part of the deterioration reflects the inclusion of formerly off-budget items and the unexpectedly deep recession in the recorded economy which has hit revenues from company taxation.

Even the central bank, usually the strongest critic of overspending, is impressed. "The government has been really serious in controlling the expenditure side - which was really difficult given the huge pressures for this or that item," says Mr Gyorgy Suranyi, president of the NBH.

A cut in subsidies pushed energy prices sharply higher last autumn and a further staged reduction in other subsidies in the new year pushed consumer price inflation to a peak of 38.9 per cent in June. Since then tight monetary policy, depressed domestic demand and increasingly fierce import competition have caused inflationary expectations to falter. Stable meat prices have had a particularly influential psychologically effect.

Inflation is now set to fall towards 20 per cent next year. Mr Tarafas estimates that current underlying inflation, excluding one-off price hikes, is around 1.5 per cent a month.

The external balance has improved too. Faced with a cash-strapped domestic market and the collapse in Comecon trade, Hungarian companies have been forced to turn to the West. They have responded far more flexibly than anyone expected. Exports to traditional hard-currency markets are growing at a surprisingly high rate of 18 per cent this year, as rapidly as last year, according to Mr Bela Kadar, minister of international economic relations.

Hungary was helped by the opening-up of the EC market and rapid economic expansion in Austria and Germany, the two most important western trading partners.

Rapid export growth and increasing tourism revenues have helped Hungary stay in surplus on the current account. This year the balance could be $300m-$500m in the black, according to Mr Frigyes Harshegyi, the ever-optimistic vice-president at the central bank. The government's original forecast was for a deficit of $1.2bn.

Even more remarkable is the fact that the external balance has righted itself despite the shock administered by the move to dollar payment in trade with the Soviet Union. The loss of subsidised oil alone cost an extra $1bn on the import bill.

That had been anticipated. The unpleasant surprise was Soviet insolvency which means that Hungary's exports to the old Comecon trading bloc are forecast to fall by 60 per cent this year, twice as rapidly as expected.

Despite everything, the positive current account and strong capital inflows, including $800m of equity capital over the first nine months, have allowed the central bank to raise its dangerously depleted reserves to $2.7bn. This is in sharp contrast with last year, when a run on the NBH drained reserves down to $700m, enough to cover little more than a month's imports.

The sturdiness of Hungary's external balance is shown in an appreciating real exchange rate. The Forint devaluation of 15 per cent in the new year does not come close to compensating for the over 30 per cent gap between Hungarian and OECD inflation rates. Forint appreciation makes the unchecked boom in hard-currency exports all the more remarkable.

On the tolerated black market the gap between official and unofficial Forint rates has virtually closed. *The premium* offered by the Arab money changers outside Macdonalds hamburger restaurant in central Budapest has fallen from roughly 20 per cent at the start of 1990 to about five per cent now. The achievement has been great, but the sacrifice too. The government now forecasts that GDP will fall by 6-8 per cent this year, 2-3 points more than expected.

Industrial output alone fell 18.3 per cent below year ago levels over the first eight months. Belatedly, unemployment has risen to 300-320,000.

Exports to eastern Europe, at 15 per cent of the total, now carry too little weight for economic growth to hinge on their future performance. The European Community, Hungary's main trading partner, is likely to show some economic growth, even if Germany slows.

Signing an association agreement with the EC in the new year will also help and January will see inflation drop as the effect of last years painful, and final, subsidy cuts drop out of the index.

Now even Mr Kadar, who prides himself on resistance to easy optimism, thinks growth is imminent. "By Christmas next year we will have muddled through to the end of the road," he says.

Nicholas Denton

Nicholas Denton reports on the impact of the unofficial economy

Good for some, tough for others

Picture by Anthony Robinson

Market reforms have abolished shortages and created new wealth for some. But they mean unemployment and *an end to cheap food and energy for Hungary's poor.* Here pensioners join the queue for cheap bread in a Budapest cut-price shop

THE old adage about lies, damned lies and statistics is highly appropriate to Hungary where the bleak story of economic decline told by the official production statistics does not reflect the dynamism of the private sector and the parallel economy.

A closer look shows, rather than widespread recession, a massive redistribution of economic activity from large state businesses to small and private ones. It also shows increasing regional and income variations.

The east of the country, highly dependent on both industrial and farm trade with the Soviet Union is depressed while Budapest and those western parts closer to the border with Austria and beyond are increasingly prosperous.

A widening income gap has also opened up between those on capped state salaries and pensions and those who charge *for goods and services on a free* market.

Government officials put more faith in indirect measurements. For instance, energy consumption is running six per cent below last year's levels, according to Mr Peter Bod, minister of industry. But he reckons that GDP fell by far

About half the cars now in circulation are of western origin

less than that, because overall energy efficiency has improved as heavy industry has shut down. The GDP figures should also be treated with scepticism for another reason.

Employment figures may also be deceptive. Workers have disappeared from the recorded economy, but unemployment has not risen nearly as fast as employment has fallen. That may be due to the fact that redundant workers do not yet know how to register with an embryonic benefits organisation.

On the other hand, there is *widespread abuse of unemploy*ment support. Ms Ottilia Solt, an MP of the opposition Free Democrats, despite her position at the head of the poverty lobby, says openly that eight out of ten registered unemployed have other sources of income.

Mr Laszlo Surjan, minister of social welfare, cites an illuminating example. The manager of an agricultural cooperative declared all the members unemployed. He then bussed them to the benefits office, and back again to work.

When it comes to income re distribution and structure, the changes in energy figures are again instructive. A 12 per cent fall in usage by industry proper was tempered by a 30 per cent growth in that by households and small businesses.

Since energy price increases give households little reason to use more, that points to even stronger growth in the private and black economy.

A study of cars on the street also illuminates the growing divide between the new rich and the new poor. Western models clog the streets in Budapest and in the golden corridor between the capital and the Austrian border.

The visual evidence shows that about half the cars in circulation are now of western origin, either new or bought second hand. But the statistics show that Western cars still only account for about a fifth of all cars in Hungary.

It is not an optical illusion. *Mr Bod believes that drivers of* Trabants and other Comecon cars bought before import liberalisation and all the other changes simply cannot afford to put petrol in their cars any more. Reinforcing the point, Porsche Hungaria, the distributor of Volkswagens and Audis, reports much stronger demand for top models than for those at the lower end of the range.

There is not only demand for expensive cars from Hungary's new rich. Fotex, the private opticians and film developers, sold 8,000 Rayban sunglasses in *the first three quarters of the* year, at prices ranging up to $200.

Mr Gabor Varszegi, chairman of Fotex, says that company targets the tenth of Hungarians who make up "high society."

Rising unemployment

☐ The number of registered unemployed in Hungary in 1989 was 12,064.
☐ The figure for last year was 85,514.
☐ This year's projected total, according to the ministry of labour, is between 300,000 and 320,000.

Contrast in lifestyles : an expensive villa in Budapest

About 80 per cent of them live in Budapest, he says. "There is a big gap between them and the average Hungarian, like in South America," he says. His company, he says, is "an island surrounded by Hungary."

A commonly cited "guesstimate" is that 10 per cent of *Hungary's 10.7m population* is rapidly enriching itself and 60 per cent of people are at least holding their own.

But that still leaves the remainder, 30 per cent of the population, who are getting poorer. This is a number uncomfortably close to the inter-war description of Hungary as "a nation of three million beggars."

For pensioners, and those on fixed incomes, for the unem-

Thirty per cent of the population is getting poorer

ployed from the big state enterprises the redundant bureaucrats, the bankrupt co-operative farmers, the immigrants from Romania and for the urban and rural poor generally, life without susidies and job security is getting harder

For the unemployed of Szabolcs-Szatmar county, hard against the northeastern border with the Soviet Union, for example, it is little consolation that Raybans are selling well in Budapest.

Now, for the majority of Hungarians, what matters is how long before the boom in the private sector and foreign investment generates sufficient momentum to carry the whole economy with it – lifting the fortunes of the new poor as it goes.

Mihaly Kupa, the finance minister and economic supremo

FOREIGN DEBT

Central bankers are more relaxed now

The good news has not yet percolated down to the man in the street who has paid the price for a stronger external account, says ANTHONY ROBINSON

HUNGARY'S central bankers – guardians of the region's highest per capita foreign debt – are looking a lot more relaxed these days.

The Gulf crisis did not hit energy costs as much as expected, exporters have managed to compensate for a 60 per cent drop in Comecon trade by boosting exports to the west – and they now earn dollars on what little Comecon trade remains. Hard currency tourist receipts and "unrequited transfers" – including some hot money from Yugoslavia and the Soviet Union – are flowing into its coffers. Above all, private equity capital is pouring in at an annual rate of over $1bn a year.

The good news has not yet percolated down to the man in the street who has paid the price for a stronger external account and accompanying structural reforms through rising unemployment and falling real incomes.

But the combination of external trade and domestic price liberalisation and monetary restraint has strengthened Hungary's external accounts to the point where Hungary now looks well placed to grow and export its way out of debt, following a track already traversed by Spain and "Asian tigers" like Taiwan and South Korea.

Such a prospect hardly looked possible at the peak of Hungary's debt crisis five years ago when 69 per cent of its then $5.05bn hard currency earnings, or $3.48bn, were used to service the $20bn debt accumulated by the communist regime in an attempt to maintain living standards while reforming the economy.

It took some deft technical footwork by the central bank, support from the international financial institutions and constant denials of any suggestion of re-scheduling to retain the confidence of private investors in Europe, Asia and the United States who hold the bulk of Hungary's debt.

Such loyalty came at a price. But margins are now being *trimmed* as international investors take note of Hungary's improved performance. Mr Frigyes Harshegyi, deputy governor of the National Bank, notes that Hungary paid around 275 points above the spread on triple A government bonds on September's Ecu200m, five year bond issue managed by Credit Suisse First Boston.

But the success of what was Hungary's first truly international issue whetted the appetite of German private investors whose interest in an originally planned Dm200m bond issue allowed its rapid growth into a Dm500m "jumbo bond" with a margin of only 190 points over triple A.

Mr Harshegyi believes that margins could be trimmed back next year to around 100 points above triple A rated bonds once the market fully digests the latest improvement in Hungary's debt/service ratio and financial prospects.

What fuels this optimism is a more than 30 per cent surge in hard currency export receipts over the first nine months of this year and an inflow of around $800m in foreign private investment over the same period. The combination of more western trade, higher tourism and other payments and strong investment flows means that total hard currency earnings this year are expected to reach between $11bn and $12bn. Central bankers now expect a current account surplus of upto $800m. At the start of the year they expected a deficit of between $1.2-$1.5bn, a shortfall which would have had to be financed by new borrowing. Instead, equity investment flows alone are expected to be sufficient to finance nearly half this year's $2.1bn maturing medium and long term debt repayment.

Much of the remainder has already been financed by new borrowings, including a $100m five year eurodollar bond organised by Bankers Trust International, the Dmark jumbo bond and Yen20bn from Japan. Net interest payments of $1.3bn meanwhile now represent only 11-12 per cent of total hard currency earnings.

The net result is that this year Hungary finds itself easily able to service its debt and add to reserves at the same time. Thanks to higher earnings the debt service ratio is expected to decline from 54 per cent in 1990 to an anticipated 37-38 per cent this year. Hard currency reserves, which totalled only $1.1bn at the end of last year rose to $2.7bn at the end of September and are still rising.

Building up reserves to between $3.5-$4bn is now aimed at to provide more flexibility to the monetary authorities and re-assurance for investors. The central bank is also busy consolidating debt on a longer term basis.

"Hungary has no intention of following a Ceaucescu-type policy of rapidly reducing foreign debt, but it will probably fall somewhat," says Mr Harshegyi.

This is an extra-ordinary turnaround for a country where, until recently, the debt burden was considered a major restraint on investor confidence and where the very word "re-scheduling" was too sensitive to utter in public in case investors should take fright.

BANKING

East European pace-setter

OLYMPIA and York, builders of London's Canary Wharf, are busy constructing a new headquarters for Magyar Hitel Bank (Hungarian Credit Bank) on what was a car parking lot in central Budapest.

The new home for Hungary's largest commercial bank will be equipped with state-of-the-art communications, including optic fibre links to the Soviet Union, and be large enough to accommodate other banks and financial institutions. Strategically placed across tree-lined Szabadsag Square from the National Bank, it is expected to become the hub of a powerful new regional financial centre in the heart of central Europe.

Hungary was the first to attempt reform of the primitive banking and financial system common to all the previously centrally planned economies. It was the first to introduce a still largely symbolic stock exchange in 1990, and now has over 30 commercial banks up and running, most of them small, under-funded and desperately short of skilled personnel.

Reform began January 1987 when the then communist government created a two-tier banking system by hiving off the National Bank's corporate banking business to three new commercial banks, leaving the National Bank with the classic central banking functions.

The banks are increasingly switching over to international accounting and auditing standards

On January 1 next year, the reform should be completed by a new Banking Act, now before parliament, which is expected to give the National Bank a status independent of government similar to that enjoyed by the German Bundesbank.

Managing the foreign debt and implementing the government's tight monetary and credit policies are the central bank's main functions and on both accounts it has done well in recent months. Inflation, which peaked at 38 per cent in May, is now dropping, the personal savings rate has doubled over the last year and interest rates are finally starting to fall.

Mr Gyorgy Suranyi, who as president has been in charge of the bank during this difficult transition period, is a competent technocrat, highly regarded by his central banking peers in other countries, but without close political support within the ruling coalition government. It remains to be seen whether he will be confirmed in his post by a government tempted to seek a less iconoclastic figure to head the first really independent institution ever to be created in Hungary.

His position should be strengthened by the fact that he and Mr Frigyes Harshegyi, the deputy president, have presided over a dramatic improvement in the external debt position this year. Rising exports and invisible receipts and strong equity capital inflows have reduced the debt service ratio from 52 per cent to around 38 per cent of hard currency income. This has allowed reserves to rise and new borrowing plans to be trimmed.

The forint is not yet formally convertible, partly because of the continuing high rate of inflation due to the phasing out of subsidies, a higher than planned budget deficit and the large number of loss making state firms.

But the currency has shown a real domestic appreciation since the 15 per cent devaluation at the start of the year and the bank is expected to introduce a form of crawling peg adjustment system in November, as recommended by the OECD in its first report on Hungary in July. Full convertibility, however, will have to await a reduction of inflation to around OECD average levels and a higher level of reserves, senior bank officials say.

Meanwhile, the sharp growth of foreign trade, and specially trade with the OECD area, has been coupled with the rapid increase in joint ventures. Foreign equity investment and private local entrepreneurship has led to a heavy demand for banking services, especially foreign trade credits and accompanying documentation. The potential for growth in the banking sector, and shortage of domestic skills, has attracted foreign banks. Roughly a third of the 32 commercial banks have foreign shareholders and do their accounts according to International Accounting Standards.

Bartha: modernising

Citibank, the first majority-owned foreign bank has become the fifth largest, and most profitable bank in Hungary, while Creditanstalt of Austria, which owns 75 per cent of Budapest Bank and Istituto San Paolo di Torino, with 22.5 per cent of Inter-Europa bank, blazed the trail for a growing number of foreign, mainly European and Japanese banks. These have set up representative offices and joint ventures to service the growing number of foreign owned and increasingly sophisticated Hungarian private corporate customers.

Austria's Postbank also has a 20 per cent stake in Postabank, a joint venture post office bank, which was the first bank allowed to undertake both retail and commercial banking business.

The postal banking system competes strongly with co-operative banks for retail deposits which are now also being aggressively sought by the commercial banks.

Despite the strong competition in the banking business however a recent study by Salomon Brothers of New York found that the bulk of business is highly concentrated in a few hands – "the National Savings bank, together with Hungarian Credit Bank, Hungarian Foreign Trade bank and Commercial and Credit Bank account for 96 per cent of the banking system's total assets", the study, *Banking in Eastern Europe* said.

Mr Arpad Bartha, chairman of the Hungarian Credit Bank, is one of Hungary's most powerful bankers. One of the three banks hived off from the National bank four years ago it has become a German-style universal bank with the bulk of its business in short to mid-term credits in both forints and foreign currency.

"We service 14,000 companies and joint ventures and 40,000 entrepreneurs keep their accounts with us. We have only had a retail banking license for 18 months but we are busy building up our retail accounts.

"By 1993, we'll finish our modernisation and computerisation and become just another European bank," says Mr Bartha."Our clients export a lot and we finance roughly half of Hungarian exports. We specialist in trade finance and barter deals and are building a strong network of foreign correspondent banks," he adds.

The bank is also heavily involved in helping to arrange and finance privatisation deals with its own "matchmaker service" and computer data base with details of privatisation candidates.

Up to now, banks have been able to make high book profits thanks to wide spreads between borrowing and lending rates. As part of the banking and accountancy law reforms, however, banks are increasingly switching over to international accounting standards and being audited by western accounting companies which are all heavily represented in Budapest.

Up to 25bn forints in bad debts will have to be written off bank balance sheets next year and they will also have to make heavier provisions to reserves. Modernising the banking system is a key element in the market-orientated reforms now under way and Hungary, the first to embark on the path, is already well ahead of the fledgling banks elsewhere in the region.

Anthony Robinson

Output falls in large engineering plants

Troubled times for industry

THESE are difficult days for industrial Hungary, especially for heavy industry and the sprawling metallurgical and engineering plants which in 1989 accounted for 69 per cent of gross production and over 50 per cent of industrial employment according to official Hungarian statistics.

Fortunately for Hungarians, the official statistical system, set up under the old regime to monitor the performance of large state enterprises, reflect an increasingly inaccurate picture of an overall economy in rapid transformation – thanks to foreign investment and the explosion of small private companies employing less than 50 people. This is where the growth lies, but it is not yet fully reflected in the statistics.

Official figures continue to show declining production and employment, specially in in enterprises formerly geared heavily towards a Soviet market for indifferent quality goods which virtually disappeared overnight when the now extinct Comecon shifted to a dollar payments basis on January 1.

Last year industrial output fell 10.2 per cent, this year it fell a further 18 per cent over the first eight months.

Many big state companies have been hanging on by selling assets and stocks, sending migrant workers home to Poland or Vietnam and simply not paying their bills. Enterprise accounts are bloated with an estimated Ft150bn of bad debts with other enterprises. Companies will be able to write of this debt or cover it from reserves after the new accounting law comes into operation at the start of the year.

As a result, a wave of bankruptcies of companies simply incapable of restructuring and unattractive to foreign investors is expected next year. Their assets will be liquidated and sold, although some will be partially restructured to maintain jobs in specially hard hit areas, specially in eastern and northern Hungary where much heavy industry and Soviet-orientated plants are concentrated.

A typical example is the OKU steelworks at Ozd in the Borsod region of northern Hungary, home town of Mr Petar Bod, the minister of industry.

The plant capable of producing up to 1m tons of steel also provided central heating and hot water for the entire town.

Its total closure would have left the local community cold as well as 40 per cent unemployed. This looked likely after two German companies, Metallgesellschaft and Korf, pulled out of an earlier joint venture.

Instead, at a cost of around 1bn forint, the government decided to build a separate heating furnace for the city, and re-start three of the nine blast furnaces – but only long enough to consume the scrap created by closing basic steel making facilities.

Within six months only the downstream wire factory and rolling mills will be kept in operation. Capacity will also be trimmed at another steel plant at nearby Miskolc and output concentrated on the most modern 1.2m ton capacity plant at Dunaujvaros, south of Budapest where Voest-Alpine of Austria is expected to take a 49 per cent stake in the cold rolling mill.

What made the unviability of much heavy industry clear was the removal of energy subsidies last November.

This not only raised the costs of Hungarian producers, it exposed them to "unfair" competition from mills in neighbouring Czechoslovakia and in Poland where energy prices still do not fully reflect real costs, the Hungarians complain.

Since energy prices rose, energy use has declined by 6 per cent on average and between 10 and 15 per cent in heavy industry, according to Mr Bod.

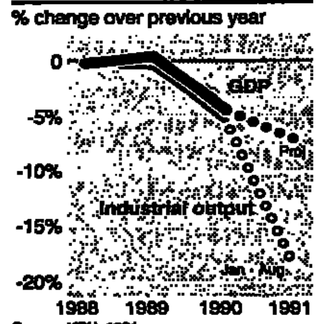
Significantly, this has been accompanied by a 30 per cent rise in "household" electricity consumption, a category which includes use by artisans and small, mainly private, businesses of less than 50 employees.

Thanks to the overall gain in energy efficiency resulting from higher prices, Hungarian imports of oil from the Soviet Union are expected to fall by 1m tons to 5m tons this year while Soviet electricity imports are expected to decline from 25 to 16 per cent of total consumption with domestic production rising to 84 per cent.

Petar Bod, industry minister

Industrial output and GDP

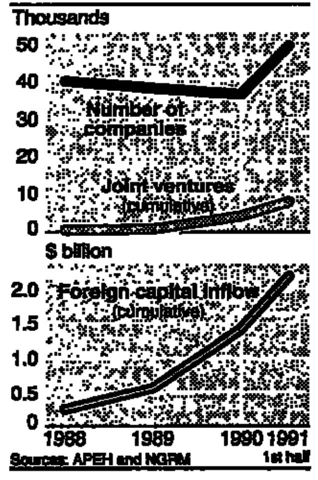
% change over previous year



Source: KSH, 1991

Companies

Thousands



Sources: APEH and NGRM

Energy consumption will fall further over the next two to three years as Hungary's three state-owned aluminium smelters are closed and other high energy and raw material consuming plants are phased out. "Gas guzzlers" are not the only victims of market forces however. Videoton, which used to export technologically outdated electronic goods to the Soviet market and throughout eastern Europe, is typical of former Hungarian high-flyers which have been flattened by import liberalisation.

This has opened up the domestic market to ferocious foreign competition – but in the process increased the attractiveness of new exports incorporating imported components assembled by cheap Hungarian labour.

Videoton has shrunk to a shadow of its former self but many of its skilled labour force, for example, are now finding jobs at a consumer electronics plant taken over by Philips or a $100m new electronics component plant built by Ford in Videoton's home town of Szekesfehervar, south of Budapest.

A growing list of foreign companies setting up new wholly-owned production plants or joint ventures includes multi-nationals like Electrolux, General Motors, Suzuki, General Electric and Siemens and food processors like Nestle.

Large scale foreign investment is also expected to transform Hungary's backward telecommunications and road system over the next decade as Hungarian Telecommunications Company (HTC), the present state monopoly is privatised, and foreign investors are invited to finance and build new toll motorways to improve north-south and east-west links.

Meanwhile, one of Hungary's biggest engineering exporters, the Ikarus bus company, has managed to survive the collapse of Comecon and adjust to the new market system in a variety of enterprising ways, including raising fresh equity capital from Soviet and Soviet republican sources and taking advantage of import liberalisation to broaden its range of products to suit the demands of a growing list of new markets.

These include Turkey, Iran and the US.

Anthony Robinson

HUNGARY 6

Fotex is Hungary's leading private company, says **Nicholas Denton**

A catalogue of successes

MR GABOR VARSZEGI ought to be content. From one photo development booth in 1985, the former rock star has built Fotex into Hungary's leading private company, a wide-ranging retail group with manufacturing sidelines.

A share offering in the United States - a 'first' for a home-grown Hungarian company - raised $50m this spring for future expansion. It still left Mr Varszegi controlling a 31 per cent share in the group, worth $40m at current market capitalisation, and other interests. It is enough probably to make him Hungary's richest man. Enough, too, for most people to sit back and enjoy their fame.

The secret was simple - service with a smile. Satisfy the customer; and recognise, too, that happy Hungarian shoppers are no different from any other. Just because they were accustomed to waiting a month for photos to be developed or even longer for contact lenses to be prepared, did not mean that they *liked* to wait.

More difficult was providing that level of service. Buying photolab machines to develop snapshots within an hour and equipment to cut lenses in a day was the least of the problem.

The secret is simple - service with a smile and satisfy the customers

Rather, it was finding staff who had not been contaminated by sloppy work habits in the state sector. The solution was to hire them young, pay well and fire readily.

"We had our political transformation a year ago but it does not mean that anything changed in people's heads," says Mr Varszegi. "You cannot change people's working behaviour. It is much easier to train a young person." Mr Varszegi takes his belief seriously. He, at 44, is the oldest in a workforce whose average age is 23.

He pays well, too - several times the rate in other stores. But it is not easy money. If a customer finds a fault with developed photographs, it is the employee responsible who has to cough up the cost. And Mr Varszegi's is the "hard knocks school" of capitalism in another crucial respect. Firing is the main reason for staff turnover.

The company is, as Mr Varszegi trumpeted during the roadshows that launched the international share offering, "an island surrounded by Hungary." The motto applies to the customers as well as the staff. "We don't want to deal with the average public - neither now nor in the future," says Mr Varszegi. The focus on the wealthiest segment of society makes Fotex largely immune to the effects of Hungary's current recession.

The results are impressive. The core photographic business has shown continuous strong profit and sales growth. And the management recipe has worked equally well with Europtic, the second business which Mr Varszegi founded, which manufactures, wholesales and retails glasses and contact lenses.

But Hungary's drive to privatise inefficient state businesses has provided temptations too strong for Mr Varszegi to be content with gentle organic growth.

"The area which is much more exciting is buying from the state," he says. The opportunities have led him into acquisitions of Azur, a cosmetics retailer and wholesaler, Kontur, a chain of department stores close to the AyXian frontier, and Ajka, a glass crystal manufacturer. He has even put a tentative finger into property development, with the purchase of a company with undervalued land in the Buda hills.

Fotex has already squeezed higher earnings from its new ventures, allowing the group to increase pretax profits to Ft492m for the period January to June, 293 per cent up on a year earlier. It has been an irritation that Fotex's share price has slumped since the spring issue, along with the Hungarian stockmarket. In this respect, the company is no island.

This catalogue of success has not gone to Mr Varszegi's head. Indeed, the opposite. Rather than welcoming his fame, he appears to regard it as a curse. He avoids photographers and interviews with Hungarian journalists, and the trappings of corporate power.

The rush to sign-up for Fotex shares

The rich are not popular, he explains - "this part of the world was trained for years and years that if someone was rich, he was a public enemy." Ironically, Fotex's business relies on precisely the insecurity of the well-off ingrained by a history of confiscations. If you've got extra cash, spend it before it is taken away, is an attitude which is taking a long time to reform.

The spotlight is ill-omened too because a succession of business stars have already wilted under its attention. The media built them up only to knock them down again. Mr Varszegi lists the businessmen who were successful five years ago. "None of them were able to survive," he says. "They are not on the TV any more."

Some of the casualties expanded their companies too fast, or into too many different fields - "we had a finger in every pie," says Mr Gabor Renyi, chief executive of Novotrade, a conglomerate which is desperately restructuring its businesses.

"The main risk for Fotex was always that we were growing too fast," Mr Varszegi concedes. "But we don't have to learn that is dangerous to over-diversify," he says, despite his recent ventures into manufacturing and property development.

Mr Varszegi is aware of the dangers of hubris - "if you get richer and richer, sooner or later you lose your self-control. One day you are going to believe that you are more clever, or others more stupid."

His guard against arrogance and complacency is a revolutionary management ethos. Company headquarters is a suburban house with room for only 14 employees.

The door to Mr Varszegi's office cannot be closed and the room is shared with his secretary. She is the longest-serving of his headquarters staff, with him for a full three and a half years. Of the colleagues she survived, nine out of ten were fired.

"We have to re-organise, re-organise, and re-organise again," says Mr Varszegi, explaining his permanent revolution. It will be a while before Mr Varszegi is able to relax.

AGRICULTURE

Year of record crops

HUNGARIAN agriculture is drowning in its own fertility. This year has seen record crops of maize, wheat, sugar, sunflower, grapes, fruit and vegetables as almost perfect growing weather followed last year's drought. But domestic consumption is down because the government has removed consumer price subsidies while the former Soviet Union is short of hard currency and unwilling to spend what it has on food imports.

The three most easterly provinces, which used to specialise in extensive cultivation of wheat and maize for the Soviet market have been hardest hit together with the wine producing areas around Lake Balaton. The vineyards now have 2m hectolitres of surplus, largely poor quality wine, which used to be soaked up without trace by the bottomless Soviet market.

Two million tons of wheat and a million tons of maize out of a total grain production of around 14m tons are also available for immediate export together with thousands of tons of sunflower, sugar and meat products worth at least $500m at world prices, according to Mr Gyorgy Rasko, state secretary at the ministry of agriculture.

Already 100,000 tons of grain paid for by the European Community have been shipped to Albania by rail and Hungary is hoping that a similar solution will be found for financing the export of this year's surplus to the Soviet Union. If not, the surpluses will be sold wherever markets can be found at whatever price can be obtained.

Some, perhaps most, is likely to end-up somewhere in the former Soviet Union like the 100,00 tons of grain and 50,000 tons of sunflowerseed oil recently bartered for oil with the autonomous republic of Tatarstan. One way or another Hungary expects to earn between $2.6bn-$2.8bn from farm exports this year.

This is well up on last year's $1.9bn export total although bigger sales will mean further heavy losses for farmers, and especially the estimated 300 co-operatives who specialised in producing for the Soviet market and used to benefit from heavy subsidies and cheap Soviet fuel for their energy intensive farms.

Many of the nearly 1,200 co-operatives, the Hungarian version of the collective farm, will go bankrupt over the next 12 months and big structural changes are needed.

The government, with financial and technical assistance from the World Bank is already working on plans to take up to 600,000 hectares of arable grain land out of production over the next five years and re-forest vast areas of eastern Hungary.

Farm subsidies have fallen from 100bn forints in 1988 to 40bn in the current year, with a ceiling of 29bn for export subsidies. The blow has partly been cushioned by better access to European Community markets for high quality meat and vegetables.

These are mainly supplied by private farms, which produce 40 per cent of total farm produce, and the more efficient co-operatives, which are also partly private, in the western provinces, close to Austria.

Agriculture has been subjected to the same harsh spotlight as the rest of the post-communist economy, exposing the inefficiencies of the collective farming system together with the strength of rural reluctance to do away completely with a system which many compared to the almost feudal Latin American-style of pre-war rural Hungary.

Faced with the need to tread a middle path between the demands of the politically important Smallholders Party for land restitution and the need to prevent too great a rural upheaval the government has come up with a Compensation Law which in theory could return up to ten per cent of the land to former owners.

The intention is to strengthen the private sector and make the co-operatives more entrepreneurial, but not to re-create the former large estates once owned by traditional noble families like the Eszterhazy or the catholic church. In theory, up to 1.5m Hungarians are eligible either for land or for property bonds in lieu of land confiscated since May 1939, a period which includes Jewish property confiscated by the pre-war dictatorship. The value of the so called "wealth coupons" is hotly disputed however and less than ten per cent had entered claims a month before registration closes on November 8.

The total cost to the government should therefore be well below the $1.7bn in interest bearing compensation bonds which could have been involved in the operation. The government has imposed a 5m forint, around $70,000, ceiling in compensation for former large estate owners and full compensation applies only to very small holdings.

In practice, only smallholders who are determined to get their ancestral land back and undertake to farm it themselves, a key distinction, will be in a strong position to bid successfully.

The fertile soil remains one of Hungary's greatest assets, says ANTHONY ROBINSON

Small landholders are entitled to 100 per cent compensation upto a limit of 200,000 forints (around $2,700) but those who agree to farm their own land for at least five years will receive an agricultural production support grant of another 800,000 forint.

Given the capital requirements of modern farming, and the fact that many co-operative farm workers are highly specialised and used to large scale methods, the co-ops are expected to remain the basis of Hungarian agriculture.

But up to a quarter could disappear through bankruptcy and those which remain will probably come to resemble western-style co-ops with a more entrepreneurial style of management and shareholders.

Much also needs to be done to modernise downstream food processing and distribution. The recent purchase of a 40 per cent stake in the state-owned Compack food trading and packaging company by Sara Lee Corporation of Illinois reflects the scope for new management methods and technology.

Greater efficiency and prospective entry into the EC will lead to big changes in the countryside which up to now has employed over 650,000 people, and produced around 20 per cent of GDP. Job losses are expected to rise unless new service work can be created and more uses found in tourism or forestry for the fertile soil which remains one of Hungary's greatest assets.

Privatisation programme

Row over plans for leading drug companies

HUNGARIANS have a reputation for cleverness. Pro capita, they have the highest rate of Nobel prize winners. And Hungarian-born scientists played an important role in the Manhattan project which led to the first US atom bombs.

They are also good at making drugs, a skill recognised under the former Comecon division of labour which made Hungary one of the largest supplier of drugs to the Soviet market.

The three largest Hungarian pharmaceutical companies - Gideon Richter, Chinoin and *Egis - are now at the forefront* of moves to privatise leading Hungarian companies. The aim is to attract strategic foreign investors capable of further integrating the Hungarian industry into global markets and new technologies.

Chinoin, the second largest pharmaceutical company hit the headlines last year when Sanofi, a subsidiary of the Elf petroleum company of France bought a 40 per cent stake for $75m with the option of building its stake to 51 per cent by stages. It was one of the first important foreign acquisitions, made before the formal privatisation structure was put in place.

In January, this year the State Property Agency, which is charged with speeding up the privatisation of state controlled enterprises, appointed Nomura Securities of Japan to seek a suitable foreign partner for Gedeon Richter, the largest Hungarian drug company with 1990 sales of 17bn forints ($269m) and after tax profits of 631m forints ($9.9m), according to Hungarian accounting rules then in force.

The aim is to attract foreign investors who will able to integrate Hungarian industry into global markets

Richter's biggest-selling product in the west is its brain function enhancing drug Vinpocetine which, under the brand name Calan, has become the 27th biggest-selling drug in Japan with nearly 25 per cent of the $1bn Japanese market in brain enhancing drugs, according to a detailed study made by Nomura.

More prosaically, it is the biggest producer of oral contraceptives in eastern Europe and the largest single supplier of drugs to the Soviet market, taking 22 per cent of the Soviet drug import market in 1989.

Since then the Soviet market has collapsed leaving Richter with a problem of unsold stocks which it has partially remedied by shifting exports to western markets.

At the same time, however, the company has set up direct marketing links with the Soviet republics whose shortage of drugs of all descriptions has become close to desperate.

The situation has been made worse by an estimated 40 per cent fall in domestic Soviet drug production because of the closure of several Soviet plants in response to severe environmental problems caused by lax ecological protection in the past. Drugs and food are at the top of Soviet aid requests and the Hungarian pharmaceutical industry's knowledge of the Soviet market is expected to make companies like Richter attractive long-term partners for foreign companies seeking to expand their long-term presence in the largest unsatisfied pharmaceuticals market in the world.

Privatisation of big companies has led to charges that state assets are being sold *too cheaply*

Although nationalised in 1948, Richter's hard currency earning capacity and strategic importance in Comecon markets ensured substantial research and development investment.

Today, it is the tenth largest company in Hungary with its main two plants in Budapest and Dorog, near Ezstergom, producing one third of total Hungarian pharmaceutical production and over one per cent of total GDP.

Its 7,600 employees produce a wide range of veterinary, cosmetic and agrochemical products in addition to bulk pharmaceuticals and high value speciality drugs.

Privatisation of Hungary's best companies is not without controversy as government critics attack the PSA variously for slowness or for selling state assets on the cheap.

But the decision to seek foreign partners who are willing to take a minimum 30 per cent stake in Richter through an injection of new capital reflects the now-prevailing view among *economic policy makers.*

This ensures full support for privatisations which bring in fresh equity capital, exposure to new technology and modern management techniques and integration into global markets.

Anthony Robinson

PRIVATISATION

A race against time

SELLING HUNGARY'S flabby state enterprises to private owners is a race against time. Speed is crucial because the country needs strong private businesses to drag it out of the current recession. As public patience with declining living standards wears out, recovery becomes ever more urgent.

The government also has to hurry to privatise while there is still something left to privatise. To the urgency is added the fact that state enterprises are quite simply dissolving under the eyes of the authorities. While some state firms have responded to financial pressures by embarking on privatisation as a matter of survival, this is not the general case. Too many loss-makers are eating themselves up, covering current costs with revenues from asset sales.

"Their value is going down constantly," says Mr Karoly Szabo, the influential deputy director of the State Property Agency, the privatisation authority. "The government can't afford to wait one to three years, because then the value will be nothing."

The gradual dissolution of state enterprises at least means that property is getting into private hands. But the true owner, the state, does not see a penny of the proceeds - except in tax revenue from companies which are profitable only in name. And it is a sad irony when privatisation revenues, by propping up decrepit state companies, delay their revitalisation.

That is not to say that privatisation in Hungary is going slowly. In the summer there was a sharp acceleration. Bringing the total to 99, July and August saw 41 state enterprises take on the legal guise of a private company – a process called transformation which is usually connected to a sale. What is more, the number of enterprises in the pipeline quintupled in July and August to nearly 500.

Together with 104 joint ventures to which state enterprises contributed assets, that means that about a tenth of Hungary's 2000 state-owned enterprises have been fully or partly privatised. The process has brought Hungary Ft42bn in foreign investment. Adding in another Ft20bn of sales to domestic investors takes the "real privatisation index" to 4 per cent, says Mr Gyorgy Matolcsy, an EBRD official and former economic adviser to the Hungarian prime minister. He predicts the figure will reach 14 per cent by mid-1992.

That compares well with the British programme of the 1980s, when 5 per cent of GDP was privatised in a decade.

Mr Matolcsy argues that Hungary's ambitious goal of getting half of the productive sector out of state hands by 1994 has already been achieved. Compared with Ft1400bn worth of state-owned commercial assets, he says, co-operatives own about Ft500bn, the Hungarian private sector another Ft500bn, local authorities Ft200bn, and foreign investors over Ft100bn. But it is not time to celebrate yet. As Mr Laszlo Lengyel, a political economist, says: "Because of the unclear, indistinct nature of ownership relations, it is hard to say where state property ends and private property begins in Hungary." Statistical acrobatics cannot substitute for the rapid sale to real private owners of the bulk of Hungarian industry which will otherwise wither in the embrace of the state.

In its attempt to meet the challenge, Hungary is following a lonely route which marks it out from the rest of eastern Europe. For Hungary, which faces the same predicament as its neighbours, rejects distribution of ownership, the answer at which Poland, Czechoslovakia and Romania have arrived.

A petrol station is auctioned by the state property agency

Hungarian officials say that they have seen enough of hybrid public-private ownership under their goulash communism to want public ownership funds now. The search for "real owners" has become the catchphrase.

"Vouchers would maintain administrative control of the economy," says Mr Szabo. "Owners would be so fragmented that they would not be able to control companies. It is a naive idea and it would seriously delay privatisation."

To date, the argument for privatisation the old-fashioned way - by sale to owners who will value their purchases - has prevailed. There are exceptions: the government issued bonds convertible into privatised property in compensation to owners expropriated by the communists. But the amount envisaged was limited and applications for compensation are far lower than expected. The opposition Free Democrats have toyed with ideas of more extensive distribution. Yet these remain distractions from the main line of policy: Hungary is probably too far down to turn back.

Nicholas Denton

Nicholas Denton looks at the new approach to state asset sales

Need for western capital

IF DISTRIBUTION is not the way to create effective ownership, what is? Hungary has to make three important choices. Should the state seek to control sales in detail or leave it to the companies themselves? Is the domination of foreign investors acceptable? And should financial or strategic investment be preferred?

The State Property Agency is gradually giving up its centralised privatisation programmes after realising that they work far too slowly. Hungary simply does not have the time for privatisation western-style. The first programme, launched a year ago, has been a great disappointment. Not one of the 20 companies is yet out of state ownership.

The reasons flow from the inflexibility of central direction. The tender for advisers took time because the SPA was besieged with bids. The accountancy firms began work too late on bringing company books to western standards. Flotations were impossible in the summer. And only now will the action begin.

One defence is that, by western standards, a year from initiation to completion is not so bad. Another is that it provides a model for companies which privatise themselves. The question is whether it is a western model, expensive in time and resources, which Hungary cannot afford.

Centralised privatisation also failed because it was not pursued wholeheartedly. The SPA was starved of resources for fear that it would turn into a bureaucratic organisation and an impediment to privatisation. The agency still has only 150 staff and cannot take on more than the current eight overstretched western advisers. "We have got very simple problems – no rooms, no chairs, no physical location for them," says Mr Csepi.

The SPA says that there will never be a centralised programme like the first. Its officials say they will direct strategic firms and those where managers move too slowly.

"The managers are in control now; the SPA is just supervising," says Mr Janos Bartha, managing director of the Budapest office of Credit Suisse First Boston.

Now the authorities are going more with the grain. Mr Csepi puts great hope in a new simplified method titled "self-privatisation" in which the authorities would not even supervise the sale. The SPA has drawn up a list of 80 approved privatisation consultants. Companies choose from the list and then are expected to find private investors. The SPA's sanction is to remove an adviser from the list.

The new channel will be a cheap one. The SPA will pay advisers a straight 5 per cent of the proceeds. "It would be impossible to do detailed account work and due diligence," says Mr Andras Simor, managing director of CA Securities, the Budapest investment banking arm of Austria's Creditanstalt.

Self-privatisation has begun with 343 small state enterprises but could be extended to 900 within three months, says Mr Csepi. "This could become the main channel for privatisation." But the fear is still strong that state company managers, given too much freedom, will cheat the state out of proceeds. The threat of scandal limits the inclusion of medium-sized companies. They are arguably the ones most in need of privatisation.

Are foreigners the only real owners? "Large companies cannot be sold to widows and orphans but to people who can manage them," says Mr Simor. "There is no option but to sell them into foreign hands." The authorities seem increasingly convinced of this argument. Sensitivities about foreign economic domination, never as strong as in neighbouring countries, have diminished.

"Today, we definitely prefer to have the outside partner in the majority because it means a radical change for the enterprise concerned," says Mr Csepi. "The real answer is western capital."

Official willingness to allow outright foreign takeovers was signalled in March when Sweden's Electrolux bought 100 per cent of Lehel, Hungary's main manufacturer of refrigerators. Government publication of a list of strategic companies in which foreign control would not be permitted may paradoxically have had a beneficial effect. Clarifying the rules has made officials less hesitant.

The pattern of privatisation has shifted in that financial investors and the stock market are playing a far more marginal role than had been expected. Ibusz remains the only Hungarian state enterprise to be privatised on the Budapest Stock Exchange, more than a year ago. And some investment funds, like the $100m First Hungary Fund, have had difficulty in finding attractive investments.

The poor performance of the Hungarian stock market has handicapped privatisation. Ibusz is trading well below its issue price last June. Disappointing company profits and fears of a spillover from the conflict in Yugoslavia and the confusion in the Soviet Union have depressed prices.

Underlying these factors is the failure of the local investment market to take off. "Public flotations have practically come to a halt. All transactions are being worked now on a private placement basis," says Mr Peter Zelnik, chairman of Girozentrale's investment arm in Budapest.

Not that private placement is much easier. Pannonplast, a plastics manufacturer that was the first company to be privatised, has been sitting on the shelf since June. Its advisers, CSFB, say that the share placement to institutions in the west is still on hold.

A more fundamental reason for the predominance of strategic investors is that most Hungarian companies need more than just financial investment. Above all, they need management skills, technology and marketing channels. Western financial investors are enough for some companies.

Graboplast, a privatised manufacturer of artificial leather, has weathered the collapse of its Soviet market better than most. Mr Simor, whose company was involved in the privatisation, puts part of its success down to the role of financial shareholders on the supervisory board who agreed to hire a management consultancy company.

But Graboplast is among Hungary's better-run companies. Mr Simor admits: "For the majority of companies we need active shareholders."

And foreign strategic investors are responding, pushed by the desire to establish market positions while it is still easy. "The real cash that is coming in is through acquisition," says Mr Theodore Boone, east European expert of Arnold & Porter, the Washington-based law firm. Of public flotations and private placements, he says: "That is simply not where the action is."

Property: who owns what

BEFORE anyone can sell something, he or she needs to know to whom it belongs. The same holds for privatisation. Easy, you might think – the owner is the state. But it is more complicated than that.

"People think it's just a matter of placing an advert saying: 'This is for sale,' comments Mr Lajos Bokros, president of Budapest Bank. But, he says, there is legal and financial tangle which needs to be cleared first.

The privatisation of Danubius, a profitable hotel chain, illustrates the problems. Local authorities own the land beneath the company's top-rank hotels. That has meant 30 separate and tortuous negotiations to determine the share each local authority will take in Danubius in exchange for its property rights.

FIERCE DISPUTE

With one of the hotels, Budapest's grandiose Gellert, the confusion over ownership is even more disconcerting. The Gellert is attached to a spa, which is owned by the local council. That has provoked a fierce dispute over whether the spa belongs to the hotel, or the hotel to the spa.

No wonder then that Mr Szabo says that a third of the SPA's working time is devoted to working out who owns how much of what. And that is before anything is sold.

It gets worse. There are some properties whose ownership is not so much contested as in limbo. Mr Gabor Demszky, mayor of Budapest, has been forced to appoint a team of specialists to find out what the city owns.

They are ploughing their way through the 145,000 title documents at the land registry office. The search has so far established the city's ownership to only 70 per cent of its estimated real estate.

UNCERTAINTY

There is another, more subtle uncertainty over ownership. "Since the early 1980s, a rather big group of economists has argued that state property was already divided, and that there isn't and cannot be any direct transition from state property to personal private property," says Mr Laszlo Lengyel. What he means is that under Hungary's goulash communism, the state's ownership rights were devolved to company managers. They became "partial owners" and are not about to give up now.

So the activities of the SPA can only have a limited goal – "the state is trying to secure its own share and profit," Mr Lengyel says. Lest one be driven to despairing frustration, there is one consolation. Former owners, whose property was confiscated by the communists, have no right to claim it back.

The issue of restitution has largely been defused in Hungary by giving financial compensation. Pity Czechoslovakia, which has to contend with an added complication.

Nicholas Denton

FOREIGN POLICY

Peninsula of stability in a sea of ethnic conflict

HUNGARY'S decision in September 1989 to allow thousands of East Germans to cross its borders into Austria broke the hermetic seal around the Soviet Union's post-war European empire.

Within three months all the old communist regimes in the region had fallen. Ironically, two years later that same western border with Austria is the only one towards which Hungary can look with any real confidence – and even there it occasionally find the way to markets in the West blocked by angry Burgenland farmers protesting at cheap food imports.

To its dismay, Hungary has become a peninsular of political stability and modest economic prosperity in a surrounding sea of ethnic conflict, nationalistic fervour and economic dislocation.

It is to the south that Budapest looks with greatest trepidation on its 600km long border with what was once federal Yugoslavia. The border runs from Slovenia across Northern Croatia and along *the top of the Serbian province* of Vojvodina, both embroiled in vicious civil war.

The dissolution of Yugoslavia has not only brought death and destruction but provocative military overflights across the Hungarian border, and a flood of 40,000 refugees across its borders.

Above all, it has raised anxious questions about the future of the substantial Hungarian minorities, specially in Vojvodina, where *memories of war time* massacres of Serbs by the occupying Hungarian army and a much larger and bloodier settling of accounts with Hungarian, German and other minorities by the communist partisans in 1945, linger like a time bomb beneath the surface.

Earlier hopes that democracy in the northern neighbour, the Slovak Republic, and in Romania, would lead to good neighbourliness and greater respect for minorities, including the large Hungarian *minorities in Slovakia and* Transylvania have also proved over-optimistic.

Further east, Hungary's frontier with the Soviet Union is quiet and, for the first time ever, Hungarian and Soviet diplomats can deal with each other on a basis of mutual respect, shorn of the ambiguities and hypocrisy which formerly characterised relations between a super power and its vassall.

But the Soviet border, across which the last Soviet troops exited in June, is now a border with the independent republic of the Ukraine which is busy creating its own currency and own army – possibly armed with nuclear weapons left on its territory.

All these areas close to the present border were part of Austria-Hungary prior to the First World War. The 1920 Treaty of Trianon deprived Hungary of two thirds of its former territory and left over 3.5m ethnic Hungarians as minorities in the new post-war states. Democratic Hungary no *longer harbours the desire to*

Hungarians have devoted their energies to creating new democratic laws and institutions

regain "lost territories" which led to an internal dictatorship and an external alliance with Nazi Germany in the inter-war years.

But in a speech just after winning the elections in April 1990 Mr Jozsef Antall, announced that he considered himself the prime minister of all 15m Hungarians, that is to say those at home, those across the borders and those in the diaspora.

In a thinly-veiled warning against Serbian attempts to redraw borders, the government has also noted publicly that the present borders of Vojvodina were drawn up with the republic of Yugoslavia, not the the government of Serbia.

But, in speech after speech, senior ministers, including Mr Geza Jeszenszky, the foreign minister, have set out their belief that the best way to guarantee the rights of all minorities, and not only those of Hungarians, is to "spiritualise" the frontiers and honour internationally agreed

Budapest is bracing itself for a de-stabilising inflow of refugees, says ANTHONY ROBINSON

human rights.

Borders between the ethnically complex countries in the region meanwhile should be made as porous as possible to people and goods.

Events in the region have undermined the high hopes originally entertained that such enlightened self-interest would prevail. In September, Mr Jeszenszky told the UN security council in New York *that Hungary, at the outset of* the Yugoslav conflict, had thought that a confederal solution would be the ideal solution.

After three months of escalating violence and hatred it had concluded that only national self-determination would work, and only then if national minorities, including the half million Hungarians, were allowed to express their views and participate in the process of nation building.

In the meantime, Budapest is *bracing itself for the* de-stabilising inflow of more refugees. It is also worried that Slovak nationalism will exacerbate differences over completion of an ecologically damaging joint dam project at Bos-Nagymaros on the Danube where Prague has hitherto acted as a restraining influence on Slovak demands to press on regardless of the ecological consequences with a project in which several hundred million dollars has been invested.

To the south east Budapest is eying uneasily the danger that a shaky Romanian *government will allow* Romanian nationalists to prevent implementation of earlier promises to restore educational and other cultural facilities to ethnic Hungarians in Transylvania.

Until now, Hungarians, led by a modest, conservative and uncharismatic governing coalition, have devoted their energies to creating new democratic laws and institutions, compatible with those in European Community countries, and above all with re-structuring the economy and trying to make money.

In the process Hungary has attracted foreign equity capital impressed by its stability, entrepreneurial flair and single minded determination to integrate into Europe.

All this would be at risk if de-stabilising refugee inflows or maltreatment of Hungarian minorities inflamed nationalist passions within Hungary which, although relatively ethnically homeogenous, is not immune to anti-semitism or intolerance towards gypsies *who make up one its largest* minorities. Thus far, the dangers are only potential, but they are sufficiently real to explain Hungary's unconcealed dismay at the failure of the EC and the wider international community to intervene more constructively in the Yugoslav imbroglio.

Above all, the proximity of such reminders of regional fragility underline the crucial importance attached to acquiring associate membership next year of the European Community, along with Czechoslovakia and Poland, its partners in the three nation "Visegrad alliance" of central european states.

This is seen as a prelude to full membership before the end of the decade. Once firmly anchored into the EC, and enjoying the de facto military protection of Nato, Hungary could aspire to become for neighbours like the Ukraine, for example, the sort of role model which Austria has represented for Hungary in its own transition towards a market orientated democracy.

This is part of the wider Hungarian conviction that the best way the West could help foster peaceful and democratic change in the Soviet Union is not to divert resources from central Europe to the Soviet republics, but to help build the new central European democracies into something the old Soviet Union never had – prosperous and democratic neighbours, sympathetic and knowledgeable about the trials and tribulations of building democracy and a market economy out of a totalitarian past.

Hungarian-Soviet joint venture – Ikarus, one of Hungary's biggest engineering exporters, will supply buses. Pictured here is Bela Kadar, minister of internal economic relations (front, left), with Hungarian businessman Sandor Demjan (see profile, below). Ikarus has managed to survive the collapse of Comecon and adjust to the new market system.

Profile: Sandor Demjan

Archetypal fixer with a finger in many pies

THERE are not many Hungarian pies in which Sandor Demjan has not stuck his finger. He is the archetypal "fixer."

A 48-year-old orphan from Transylvania, now part of Romania, he built up the Skala supermarket chain in 10 years from zero to the biggest retailer in the country with 99 franchised supermarkets and 10 "own-name" department stores. He also signed up five of the 11 foreign joint ventures existant in 1985.

The next year he left Skala *to establish* the Hungarian Credit bank, still by far the largest Hungarian commercial bank, when the 1986 banking reform established a two-tier banking system and hived fledgling commercial banks off from the National Bank of Hungary.

His biggest coup was to buy the Tungsram lighting company from the state and sell it, at a large profit, to General Electric in one of the earliest biggest privatisations through foreign purchase.

He left Skala "a poor man," a socialist entrepreneur who built up a socialist enterprise owned by the state and left to inject entrepreneurial methods *into another state-owned enterprise.*

Now he is private businessman, the charismatic chairman and chief executive of Central European Investment Company Holding Ltd (CEIC).

It is registered in Toronto and has powerful foreign shareholders, including the Toronto-based Reichmann brothers, former Hungarian Jews, who control Olympia and York, builders of London's Canary Wharf.

The Reichmann's have a reputation for thinking big and thinking long-term. So does Mr Demjan whose contacts extend far beyond Hungary and deep into the former Soviet Union.

He played a key role in advising Kamaz on privatisation of the largest Soviet truckmaker and a similar strategic role in attracting equity invest*ment from Moscow and several* Soviet republics into Ikarus, the Hungarian bus company – *see picture, above, of a joint-venture signing.*

The future of Ikarus depends largely on continuing sales to the Soviet republics which have 80,000 of its products in circulation.

For Kamaz he is helping with the search for a strategic partner, probably a western manufacturer of small trucks who would be able to take advantage of the 450 well

Demjan's contacts extend far beyond Hungary, says ANTHONY ROBINSON

equipped service facilities owned by Kamaz throughout the old Soviet Union for servicing its own range of medium to heavy trucks.

He is also looking for a foreign partner which could integrate relatively cheap and reliable Kamaz trucks into its own existing product or sales range and provide an outlet for the Kamaz 100-ton mining dump trucks in South Africa, Australia, Latin America and other mining regions.

He is optimistic about the long-term prospects for a more rationally organised economic *and political system in the former* Soviet state and advises potential foreign investors to think about re-investing their rouble profits in long-term strategic investments, not the immediate problems of profit repatriation in hard currency.

Closer to home, the man who helped introduce General Electric, Suzuki, General Motors, Daewoo and other western investors to Hungary is giving similar advice to foreign companies seeking a Hungarian partner, both to develop new markets in Hungary itself and take advantage of Hungary's connections in the Soviet and other former Comecon markets to make long-term strategic forays into an area which, for the uninitiated, looks increasingly anarchic – but tantalisingly profitable longer-term.

Sandor Demjan outside the restaurant he helped finance in Budapest's new financial district